

GOVERNMENT FAILURE IN DISPOSING OF OBSOLETE SHIPS

FRIDAY, JUNE 9, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
TASK FORCE ON HOUSING AND INFRASTRUCTURE,
Washington, DC.

The Task Force met, pursuant to call, at 10:10 a.m. in room 210, Cannon House Office Building, Hon. John E. Sununu (chairman of the Task Force) presiding.

Chairman SUNUNU. Good morning and welcome to the witnesses. I want to thank Ken Bentsen and all the committee members for participating in the hearing today.

Today we welcome three witnesses to testify on the problems and the failure governmentwide in disposing of obsolete ships. Our witnesses today are Thomas Howard, Deputy Assistant Inspector General for the Department of Transportation; John Graykowski of the Maritime Administration; and Vice Admiral James Amerault, Deputy Chief of Naval Operations for Logistics. I understand all of you have busy schedules and I appreciate your taking the time today.

The Merchant Ship Sales Act of 1946 created the National Defense Reserve Fleet to provide merchant and nonmilitary vessels to meet shipping requirements during national emergencies. The Maritime Administration, MARAD, administers this fleet, and they are responsible for disposing of obsolete vessels of 1,500 gross tons or more. DOD provides funding to maintain the fleet, and right now there are 114 vessels that have been designated for disposal because most of them are no longer operational and they do pose problems that are both financial and environmental.

Unfortunately, we have a situation that is beginning to develop into a crisis. Over the last 5 years, in a number of ways, the government has restricted the ability of MARAD to engage in this task. There are current restrictions on MARAD to use its own funds to pay for the scrapping of these vessels. There have in the past been restrictions on utilizing foreign scrap yards, and there is a problem with the domestic supply of available scrap yards to handle the disposal of these obsolete vessels.

The vessels are maintained at three locations: James River Reserve Fleet in Virginia; Beaumont Reserve Fleet in Texas; and the Suisun Bay Reserve Fleet in California. During 1999 the cost to maintain this disposable fleet exceeded 4.2 million and there was an additional \$1 million that we will have Mr. Graykowski talk about in some more detail for emergency repair.

This is really no direct fault of MARAD. These are old vessels, in some cases decades old. They have hazardous materials in some cases on them. They can leak oil and I think this environmental issue has really been undiscussed, at least unquantified. That is one of the issues I hope we can touch on today to better understand the potential environmental threat, the cost of that environmental threat, and the threat it poses not just on the river itself or the bay where these boats are being held but on local economy, shipping, and local navigation safety.

The estimates to deal with this problem in its entirety range from \$500 million to over \$2 billion. That is a significant amount of money. It is an enormous range of costs and I think that is simply an indication of how little we really understand both the short-term and long-term costs of dealing with these problems.

Since 1995 MARAD has only scrapped 7 vessels. Several were sold to contractors in 1999, but a number of the vessels were never removed and remain moored with the MARAD fleet. Progress has clearly dropped off in the past 10 years; but at the same time the longer we wait, the larger this problem becomes. The problem grows because over the next year over a dozen additional vessels are scheduled to come into the MARAD fleet.

Now, between 1987 and 1994, MARAD disposed of 130 vessels, most of which were exported to China, India, Mexico and Taiwan. Problems with the world price of scrap metal has also hindered efforts by MARAD to scrap the vessels because when scrap metal prices are depressed, there is less likelihood that either a foreign or a domestic scrap yard is going to be willing to pay to take the vessel off MARAD's hands. Current legislative restrictions exist, as I said earlier, that prevent MARAD from engaging in contracts to pay for the scrapping of these vessels and as a result the problem grows.

I think it is a problem that is getting worse. The estimate is that there would be as many as 155 vessels waiting for disposal by the end of 2001. The administration response to date, in addition to imposing a moratorium that lasted for some time and significantly delayed the scrapping process, was to move the date that we required these ships to be disposed of back 5 years or at least to request a movement in that date. While I understand that this reflects a recognition of the slow pace of progress in this area, I don't think that moving the date that we require all these vessels to be scrapped in and of itself is going to really address the problem. Delaying when we have a known environmental crisis before us really is no solution.

I am very interested to hear what our real options are for dealing with this problem. I don't think waiting is acceptable. I think and I hope Mr. Graykowski from MARAD will be candid and even creative in perhaps looking beyond some of the existing financial restraints or political restraints and talking through with this subcommittee, with this Task Force, what some of the potential options might be. And I am sure that members on both sides of the Task Force recognize that this is a problem that may actually cost money in the short term in order to save money in the long term, and certainly it warrants our closest attention.

We don't have a good handle on the costs and the potential risks associated with this, with these obsolete vessels, but I hope at the end of this hearing today we will have a much clearer picture of the options ahead of us.

[The prepared statement of Mr. Sununu follows:]

PREPARED STATEMENT OF HON. JOHN E. SUNUNU, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF NEW HAMPSHIRE

I would like to start by thanking Congressman Bentsen and all the members of the Task Force for being here this morning. I would also like to thank and recognize Mr. Thomas J. Howard, Deputy Assistant Inspector General, Department of Transportation, Mr. John E. Graykowski, Deputy Administrator of the Maritime Administration (MARAD), and Vice Admiral James F. Amerault, Deputy Chief of Naval Operations for Logistics. I appreciate your taking time out of your busy schedules to be here with us.

The Merchant Ship Sales Act of 1946 created the National Defense Reserve Fleet (NDRF), which would provide merchant and nonmilitary vessels to meet shipping requirements during national emergencies. The Maritime Administration (MARAD) administers the fleet and is charged with the responsibility of disposing of vessels of 1,500 gross tons or more. The Department of Defense (DOD) provides funding to maintain the fleet. At this time, 114 vessels have been designated for disposal because many of them are no longer operational and pose serious problems both financial and environmental. It is my hope that we can explore here today the extent of the problems with scrapping these ships and discuss the possible solutions. Furthermore, I would like to know what we in Congress can do to help move this potentially costly situation forward or at least closer toward a comprehensive resolution.

These 114 NDRF vessels are maintained at three locations: the James River Reserve Fleet in Virginia; the Beaumont Reserve Fleet in Texas; and the Suisun Bay Reserve Fleet in California. During fiscal year 1999, the cost to maintain 110 vessels awaiting disposal exceeded \$4.2 million, and an additional \$1 million was spent on an emergency repair. The estimates to do away with this problem range from \$500 million to \$2 billion. The yearly costs to maintain an NDRF ship averages \$20,000. If some of these ships are not disposed of soon, they may sink, causing serious environmental problems. Repairing and drydocking these vessels could be very expensive and may cost as much as \$900,000 per vessel. Environmental cleanup and remediation could be even more expensive to address, and appears to be very hard to estimate, which is a large concern in my mind.

Since 1995, MARAD has only scrapped 7 vessels. Several vessels were sold to contractors in 1999, but the vessels were never removed and remain moored with the MARAD fleet. Progress in scrapping vessels has clearly dropped off in the past 10 years. The longer we wait the larger and more costly the problem becomes.

Typically, a ship scrapping company buys the rights to scrap a government ship and later sells the salvaged metal to recyclers. Remediation of hazardous materials takes place before and during the dismantling process. If a vessel is taken apart improperly, a ship scrapping operation can pollute the land and water surrounding the scrapping site and risk the health and safety of the scrapping operation's employees.

Exporting these ships is not an option at present. In 1994, the Environmental Protection Agency (EPA) prohibited the Navy and MARAD from exporting vessels after determining that the export of government ships for scrapping was prohibited by the Toxic Substances Control Act. In fact, MARAD has not sold a vessel to overseas markets for scrapping since 1994. MARAD disposed of 130 vessels between 1987 and 1994, of which 128 were exported to China, India, Mexico, and Taiwan. In September 1998, the Clinton administration placed a moratorium on overseas scrapping due to concerns about environmental and worker health and safety. The moratorium expired October 1, 1999. Currently, the administration requires MARAD to request approval from the EPA to sell vessels overseas to markets that are capable of scrapping in an environmental complaint manner.

It is apparent that this problem cannot continue to go unresolved. The Department of Transportation Inspector General's office indicated in its audit report of March 10, 2000, that the number of obsolete vessels could be as high as 155 by the end of fiscal year 2001. We can surely all agree that this situation is getting worse and something must be done soon.

I am interested to hear what plans are currently being made and developed to deal with these issues. I am hopeful that MARAD and the Navy can coordinate their efforts to bring about a solution. Solutions may range from allowing overseas scrapping of these vessels, creating a domestic scrapping industry in the United States

to handle the workload, or to simply spend the money necessary to dispose of every obsolete vessel.

The bottom line is that the U.S. Government does not have a good understanding of the potential long-term cost of scrapping these ships or the environmental impact resulting from a ship-related accident. I look forward to hearing the thoughts of our panel members. I would like to recognize Congressman Bentsen for any opening comments he may have.

Chairman SUNUNU. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman, and I thank the members of the panel for testifying today. As the Chairman pointed out, this Task Force is charged with holding oversight hearings on waste, fraud, and abuse and reporting our findings and recommendations to the full House Budget Committee.

In this, our third oversight committee hearing, we turn to disposal of obsolete vessels in the National Defense Reserve Fleet by the Maritime Administration, MARAD program. I have a dual interest in this, the one which you all are doing; but, I also might add, representing the district which includes a great deal of watershed in the port of Houston and the ship channel.

I have had my own experience in trying to remove abandoned barges from the San Jacinto River, which the Coast Guard was kind enough to do with a little nudging from Congress. And, Mr. Chairman, we did find that in many cases, the cost of removal and decontamination exceeds the scrap value greatly and ends up being a net loss situation.

I am particularly interested in hearing about the Navy's pilot project for scrapping obsolete vessels and whether it can be used as a model for MARAD. While I am interested in learning the magnitude of the inventory excess problem, I am primarily concerned about how MARAD plans to economically scrap these vessels while complying with safety and environmental standards. I understand the issue is the relative feasibility of scrapping these vessels in the United States and overseas.

I might mention that our colleague, Mr. DeFazio of Oregon, has introduced a bill, H.R. 4189, which would establish a pilot program for the Department of Transportation to carry out the vessel scrapping and processing program in the United States. At his request, Mr. Chairman, I would ask unanimous consent at the appropriate time that his statement regarding his bill in this matter be included in the record.

Chairman SUNUNU. Without objection. And I would ask also unanimous consent that all members be given 5 days to submit written statements for the record.

[The information referred to follows:]

PREPARED STATEMENT OF HON. PETER A. DEFAZIO, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF OREGON

Thank you very much for the opportunity to testify on the issue of how to dispose of the U.S. Government's obsolete ships. As the ranking Democrat on the House Transportation and Infrastructure Committee's Subcommittee on Coast Guard and Maritime Transportation, I am keenly interested in resolving this problem. I have introduced legislation, H.R.4189, to address the issue and the Subcommittee has held two hearings on this subject.

As you know, the U.S. used to send its surplus vessels for scrapping at overseas facilities, under terrible conditions. Public outrage over the U.S. sending its toxic legacies overseas, led the Administration to halt this practice several years ago. Since that time, virtually no ships have been scrapped. Why? Because the U.S. Maritime Administration (MARAD) is statutorily obligated to sell these ships, and can-

not, under current law, provide funds for their disposal here in the United States. No U.S. shipyard can possibly scrap these ships in an environmentally responsible and safe manner. So, these ships remain rotting at anchor in U.S. harbors.

The government's current options are to again send its vessels to overseas shipyards where third world workers toil in unspeakable conditions, or leave them in U.S. harbors where they risk sinking and polluting our waters.

Instead of lamenting over this dilemma, Congress should take the initiative to change MARAD's statute and allow the agency to provide funding for shipyards in the United States to scrap ships. These ships are the responsibility of the U.S. Government and we should take responsibility the environmental hazards and safety risks posed by these vessels.

It is time to admit that it will cost money to take care of our toxic legacy. I have introduced legislation to do just that. My bill, H.R.4189, authorizes funding for a ship scrapping pilot program at MARAD, to pay qualifying shipyards to scrap its obsolete vessels.

I hope that as a result of this hearing, more Members of Congress and the public will be aware of this problem and work to enact legislation to solve it.

Mr. BENTSEN. I thank the Chairman and with that, I will yield back the balance of my time and look forward to hearing the testimony today.

Chairman SUNUNU. Thank you very much Mr. Bentsen.

I would like to begin our testimony with Mr. Howard from the Inspector General's office and then provide time for Mr. Graykowski to talk about his perception of the problem and thoughts on ways to deal with the problem. And then we will hear from Vice Admiral Amerault about the Navy pilot program which I know has met with some success, and even more important, I hope has yielded a good deal of information about the process, the costs, and the technical and financial obstructions to dealing with this problem.

Mr. Howard, welcome, and we are pleased to hear your testimony.

STATEMENTS OF THOMAS J. HOWARD, DEPUTY ASSISTANT INSPECTOR GENERAL FOR MARITIME AND DEPARTMENTAL PROGRAMS, U.S. DEPARTMENT OF TRANSPORTATION; JOHN E. GRAYKOWSKI, ACTING MARITIME ADMINISTRATOR, DEPARTMENT OF TRANSPORTATION; AND VICE ADMIRAL JAMES F. AMERAULT, DEPUTY CHIEF OF NAVAL OPERATIONS LOGISTICS

STATEMENT OF THOMAS J. HOWARD

Mr. HOWARD. Thank you, Mr. Chairman, members of the Task Force. I ask that my statement be submitted for the record and I will summarize my remarks.

Chairman SUNUNU. Without objection.

Mr. HOWARD. My statement is based on our March 10th report on MARAD's ship-scrapping program. The Office of Inspector General has identified MARAD's ship-scrapping program as one of the 12 most pressing management issues in the Department of Transportation. The Department, the administration, and the Congress face a challenge in determining how to dispose of MARAD's fleet of old, environmentally dangerous ships in a timely manner.

The current approach of selling ships for domestic scrapping is not working. MARAD will not be able to meet the legislative mandate to dispose of its ships by September 30, 2001. It also will not be able to gain meaningful financial returns from these ships.

As you mentioned, Mr. Chairman, MARAD maintains its ships in the water in three locations. The picture being displayed shows a few of the ships in Suisun Bay. The one in the foreground is the *Mission Santa Ynez*, which is 56 years old and has been awaiting disposal for 25 years. Environmental dangers associated with these old, deteriorating ships are increasing daily. The so-called worst-condition ships average 50 years old and have been awaiting disposal for 22 years.

These photos show actual conditions on 3 of the 40 worst-condition ships. The ships contain hazardous materials such as PCBs, asbestos, lead-based paint, and fuel oil. Some have deteriorated to the point where a hammer can penetrate their hulls. If the oil from these ships was to leak into the water, immediate and potentially expensive Federal and State action would be required.

MARAD currently has 114 obsolete ships awaiting disposal. As shown in the chart being displayed now, this number has grown from 66 just 3 years ago. It is expected to reach 155 by the end of fiscal year 2001.

As shown in the next chart, only 7 ships have been scrapped since 1995. This represents a significant change from 1991 through 1994 when 80 ships were scrapped overseas. In addition, recent sales to domestic scrappers have only yielded between \$10 and \$105 per ship. This is down from an average price of \$433,000 per ship during the early nineties.

MARAD's inability to reduce the backlog of ships awaiting disposal is attributable to a couple of factors: the loss of overseas sales, current limited domestic scrapping capacity and the Navy's pilot program.

Since 1994 MARAD has been relying on the domestic ship-scrapping market but its capacity is currently limited. Only four companies have passed MARAD's technical compliance reviews to scrap ships. Although MARAD sold 22 ships to these domestic scrappers since 1995, 13 are still moored in MARAD's fleet. Recent contractor delays in picking up ships and a default by one contractor raise a question as to whether the ships will be removed from the fleet.

The Department of the Navy experienced a similar inability to sell its obsolete combatant ships in the domestic market. In 1998 Congress authorized and appropriated funding for a pilot project allowing the Navy to pay domestic contractors to scrap ships. Last year the Navy awarded contracts amounting to \$13.3 million for the scrapping of 4 ships. The contractor that defaulted on MARAD is scrapping a ship under the Navy pilot program. MARAD is coordinating with the Navy on its initiatives and is pursuing alternative disposal methods, but due to capacity limitations, no one of those alternatives has the potential of significantly reducing the backlog in a timely manner.

In our March report we recommended that the Maritime Administrator take several actions:

First, seek legislative approval to obtain an extension on the disposal mandate and eliminate the requirement to gain financial returns on vessel sales.

Second, continue to pursue programs to improve scrapping sales and identify alternative disposal methods.

Third, develop a proposal seeking authority and funding to pay domestic contractors to scrap ships, targeting the 40 worst-condition ships for priority disposal.

In its authorization request for fiscal year 2001, MARAD proposed a 5-year extension to develop and begin implementing a plan to dispose of these ships. We do not believe it is acceptable to begin disposal within 5 years, considering the condition of some of the ships, the environmental risk, and the cost to maintain them. In our opinion, the legislation should require MARAD to develop a disposal plan and substantially dispose of these ships within 5 years. Further, MARAD's plan needs to identify viable disposal methods, set milestones, and target the worst-condition ships for priority disposal.

This concludes my remarks. I will be happy to answer questions. Chairman SUNUNU. Thank you Mr. Howard.

[The prepared statement of Thomas Howard follows:]

PREPARED STATEMENT OF THOMAS J. HOWARD, DEPUTY ASSISTANT INSPECTOR GENERAL FOR MARITIME AND DEPARTMENTAL PROGRAMS, U.S. DEPARTMENT OF TRANSPORTATION

Mr. Chairman and members of the Task Force, we appreciate the opportunity to be here today to discuss the Maritime Administration's (MARAD) program for scrapping obsolete vessels. We have identified this program as 1 of the 12 most pressing management issues in the Department of Transportation. The Department, the Administration, and the Congress face a challenge in determining how to dispose of MARAD's Fleet of old, environmentally dangerous vessels in a timely manner.

The current approach of selling obsolete vessels for domestic scrapping is not working. There is limited capacity in the domestic scrapping market and the Navy is paying contractors to scrap its obsolete warships while MARAD is asking contractors to pay to scrap its vessels. Further, MARAD has been constrained from selling vessels overseas for scrapping, although this had been a key market in the past.

MARAD will not meet the legislative mandate to dispose of its obsolete vessels by the end of fiscal year (FY) 2001 in a manner that will yield financial benefits. MARAD will need relief from those requirements. MARAD will also need authorization and funding for a program to pay for the disposal of obsolete vessels if it is to have the potential to significantly reduce the Fleet.

MARAD is pursuing a number of alternatives for disposing of its obsolete vessels, but because of capacity limitations, no one has the potential to significantly reduce the backlog of vessels in a timely manner. MARAD needs to develop a plan and take prompt action to dispose of all of its obsolete vessels.

Our statement is based on our March 10, 2000 report on the scrapping program. We will discuss three issues today:

- The environmental threats posed by MARAD's growing backlog of obsolete vessels;
- Key factors contributing to MARAD's inability to scrap vessels domestically; and
- The need for prompt implementation of a plan that prioritizes disposal of the "worst condition" vessels and identifies methods and milestones for disposing of all obsolete vessels in the Fleet.

GROWING BACKLOG OF OBSOLETE VESSELS IS A THREAT TO THE ENVIRONMENT

MARAD currently has 114 obsolete vessels awaiting disposal. This number has grown from 66 vessels 3 years ago. Moreover, the inventory of obsolete vessels awaiting disposal is continuing to increase, and is expected to reach 155 by the end of FY 2001.

MARAD maintains its vessels in the water at three locations—the James River in Virginia; Beaumont, Texas; and Suisun Bay, California. Environmental dangers associated with these old, deteriorating ships are increasing daily. The so-called "worst condition" vessels are about 50 years old and have been awaiting disposal for 22 years on average.

VESSELS AWAITING DISPOSAL AT SUISUN BAY RESERVE FLEET

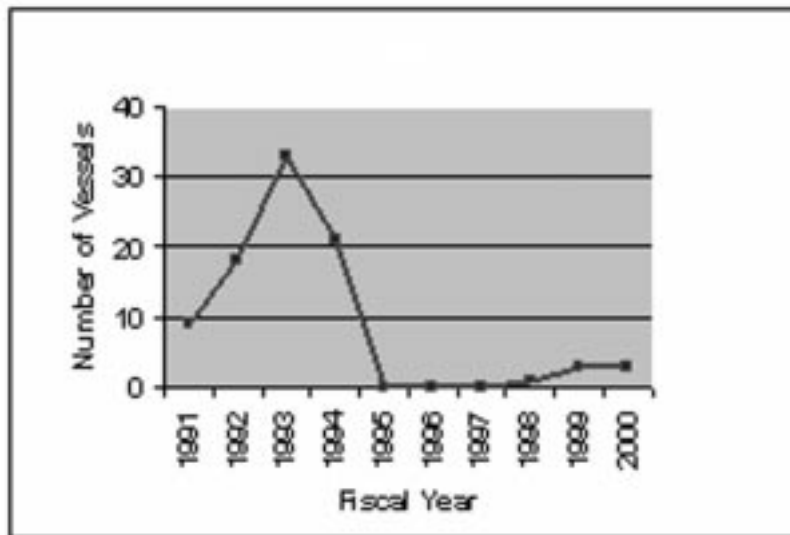


These vessels contain hazardous materials such as polychlorinated biphenyls (PCBs), asbestos, lead-based paint and fuel oil. Some vessels have deteriorated to the point where a hammer can penetrate their hulls. If the oil from these vessels were to enter the water, immediate and potentially very expensive Federal and State action would be required. For example, MARAD spent \$1.3 million on a costly environmental cleanup because one of the "worst condition" vessels deteriorated to a point where oil leaked into the water.

MARAD'S INABILITY TO SCRAP VESSELS IS ATTRIBUTABLE TO SEVERAL KEY FACTORS

Since 1995, only seven vessels have been scrapped. This represents a significant change from 1991 through 1994 when 80 ships were sold overseas at an average price of \$433,000 per vessel. Recent sales to domestic scrappers have only yielded between \$10 and \$105 per vessel.

MARAD VESSELS SCRAPPED



MARAD stopped selling vessels overseas for scrapping in 1994 due to Environmental Protection Agency (EPA) restrictions. In September 1998, the Administra-

tion placed a moratorium on all sales of vessels for scrapping overseas that remained in force through October 1, 1999. MARAD has continued to refrain from exporting obsolete vessels because of concerns about the environment and worker safety.

Since 1994, MARAD has been relying on the domestic ship scrapping market, but its capacity is limited. Only four companies have passed MARAD's technical compliance review to scrap vessels. Although MARAD sold 22 vessels to these domestic scrappers since 1995, 13 of the vessels are still in MARAD's Fleet. Recent contractor delays and a contractor default raise a question as to whether these vessels will be removed by contractors from the Fleet.

The Department of the Navy experienced a similar inability to sell its combatant vessels for domestic scrapping. In 1998, Congress authorized and appropriated funding for a pilot project allowing the Navy to pay domestic contractors to scrap vessels. On September 29, 1999, the Navy awarded four contracts amounting to \$13.3 million for the scrapping of four vessels.

MARAD cannot compete with the Navy pilot program in the limited domestic market because, by law, MARAD is prohibited from paying for scrapping services. The contractor that defaulted on MARAD, is scrapping a Navy ship under the pilot program.

MARAD NEEDS A PLAN AND PROMPT ACTION

To Dispose Of its Obsolete Vessels

While MARAD has been pursuing alternative ways to dispose of vessels, it is constrained by the legislative requirement to maximize financial returns. Also, the alternatives MARAD is pursuing have capacity limitations and, therefore, no single option has the potential to significantly reduce the backlog of vessels in a timely manner. These alternatives include: coordinating with the Navy and a west coast company on a proposal for a potential scrapping site; participating in interagency work groups to look for innovative ways to improve the ship scrapping process; and requesting approval from EPA to sell vessels to overseas markets.

The National Maritime Heritage Act of 1994 requires MARAD to dispose of its obsolete vessels by the end of FY 2001, which is an extension from 1999, the original deadline. MARAD does not have a plan to dispose of these vessels.

We recently recommended that the Maritime Administrator:

1. Seek legislative approval to obtain an extension on the disposal mandate and eliminate the requirement to gain financial returns on vessel sales;
2. Develop a proposal seeking authority and funding to pay domestic contractors to scrap vessels, and target the "worst condition" vessels for priority disposal; and
3. Continue to pursue programs to improve scrapping sales and identify alternative disposal methods for its obsolete vessels.

In its authorization request for FY 2001, MARAD proposed a 5-year extension "to develop and begin implementing a plan to dispose of these vessels." We do not believe it is acceptable to begin disposal within 5 years considering the condition of some of the vessels, the environmental risks, and the costs to maintain them. In our opinion, the legislation should require MARAD to develop a disposal plan and substantially dispose of these vessels within 5 years. Further, MARAD needs to identify viable disposal methods, set milestones, and target the "worst condition" vessels for priority disposal.

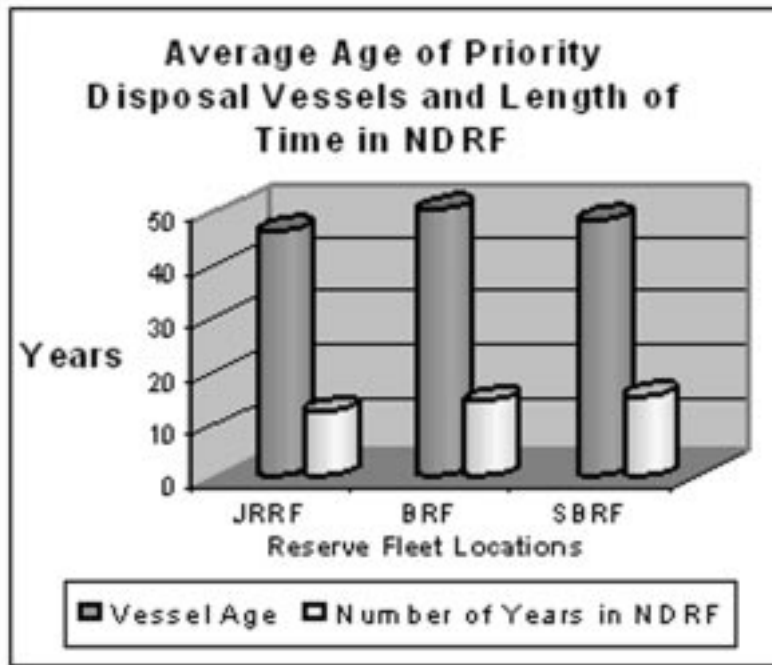
BACKGROUND

The Merchant Ship Sales Act of 1946 created the National Defense Reserve Fleet (NDRF), a Government-owned and administered Fleet of inactive, but potentially useful, merchant and non-military vessels to meet shipping requirements during National emergencies. MARAD administers the Fleet, and the Department of Defense provides the funding to maintain the Fleet. The Federal Property and Administrative Services Act gave MARAD responsibility for disposing of all Federal Government merchant-type vessels of 1,500 gross tons or more. The National Maritime Heritage Act of 1994 required MARAD to dispose of obsolete vessels in the Fleet by September 30, 1999, in a manner that maximizes financial return to the United States, but the Act was amended to extend the original disposal date by 2 years, from 1999 to 2001.

As of April 30, 2000, 114 obsolete vessels were designated for disposal because the majority of them are no longer operational. MARAD maintains the inactive vessels in the water at the following locations:

- James River Reserve Fleet (JRRF) at Ft. Eustis, Virginia (61 vessels);
- Beaumont Reserve Fleet (BRF) in Beaumont, Texas (9 vessels); and
- Suisun Bay Reserve Fleet (SBRF) in Benecia, California (42 vessels).

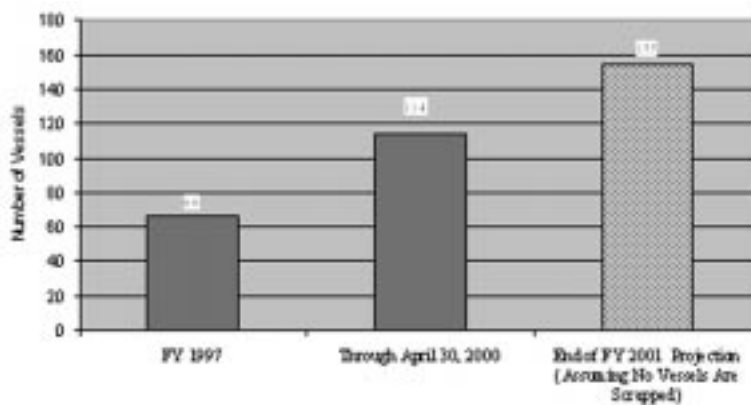
The Coast Guard holds two vessels in Mobile, Alabama for fire fighting training. As shown in the following chart, the average age of the 114 obsolete vessels is 48 years. These vessels have been in the Fleet for an average of 15 years.



THE NUMBER OF OBSOLETE VESSELS AWAITING DISPOSAL IS INCREASING

The number of obsolete vessels has almost doubled since 1997. MARAD expects its inventory of obsolete vessels awaiting disposal will increase to 155 vessels by the end of FY 2001, as shown in the following chart.

VESSELS AWAITING DISPOSAL



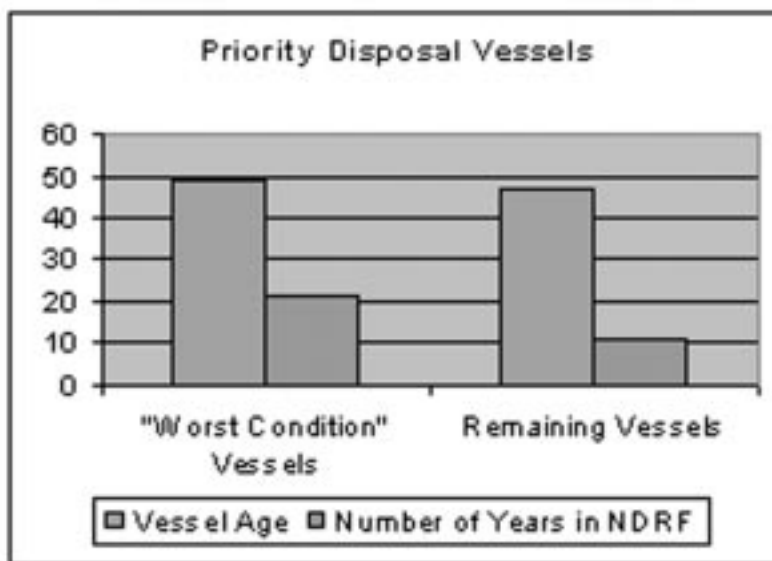
This projected increase is due to additional vessel transfers from the Navy, downgrades of other NDRF vessels to obsolete status, and the inability to sell ships for

scrap. Of the 155 vessels, 132 will be targeted for scrapping. The remaining 23 vessels will be targeted for disposal through the fish reef program, use by a State or Federal agency, or held for useful parts and equipment. However, some of these vessels may be transferred into the scrapping category in future years if they cannot be disposed of through other means.

OBSOLETE VESSELS POSE ENVIRONMENTAL RISKS

The 114 obsolete vessels currently awaiting disposal pose environmental risks because they are deteriorating, contain hazardous materials, and contain oil that could leak into the water. These vessels are literally rotting and disintegrating as they await disposal. Some vessels have deteriorated to a point where a hammer can penetrate their hulls. They contain hazardous substances such as asbestos and solid and liquid polychlorinated biphenyls (PCBs). If the oil from these vessels were to enter the water, immediate and potentially very expensive Federal and state action would be required.

In 1999, MARAD identified the 40 "worst condition" vessels. These vessels were classified as "worst condition" due to their severe deterioration and threat to the environment. As of April 30, 2000, 3 of the 40 had been moved out of the Fleet to domestic scrappers. As shown in the following chart, the "worst condition" vessels are older and have been in the Fleet longer than the other vessels awaiting disposal.



The "worst condition" vessels are in particularly bad condition, and may require additional or special maintenance. Our inspection of 11 of the original 40 "worst condition" vessels revealed corrosion, thinning, and rusting of the hull; asbestos hanging from pipes below deck; lead-based paint easily peeled from the ship; solid PCBs (in cabling); and in some instances, remnants of liquid PCBs in electrical equipment.

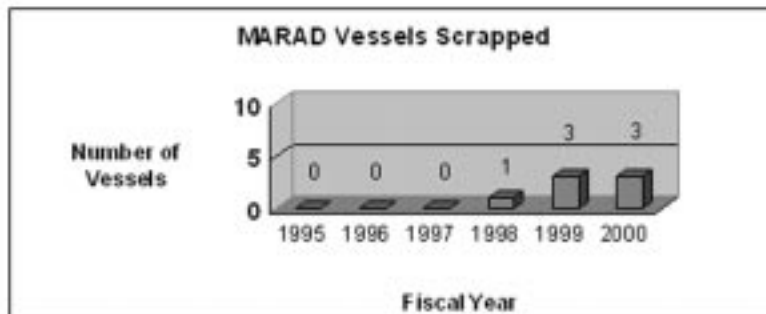
DETERIORATING VESSEL AT JAMES RIVER RESERVE FLEET



Costs to maintain these vessels will likely increase due to their deteriorating condition, leaks, and the need for additional time-sensitive maintenance. For example, MARAD spent \$1.3 million to maintain 1 of the 40 “worst condition” vessels over the past 2 years. This vessel is over 35 years old, contains hazardous substances including asbestos, and has deteriorated to the point where oil leaked into the water requiring costly environmental clean-up. MARAD has applied over 20 patches to leaks, removed hazardous materials, deployed containment booms, and pumped oil out of the vessel. The vessel is disintegrating to a point where it will not be seaworthy much longer. Monitoring efforts for this vessel are ongoing.

PROGRESS IN SCRAPPING VESSELS IS LIMITED

Although MARAD has sold 22 vessels since 1995, only 7 have been scrapped. Two other vessels have been towed to scrapping sites. The remaining 13 vessels sold are still moored in MARAD's Fleet, requiring continued maintenance at U.S. Government expense.



Between 1991 and 1994, MARAD sold 80 vessels overseas for scrapping at an average price of \$433,000 per vessel. During the past year, vessel sales yielded between \$10 and \$105 per vessel. On October 25, 1999, MARAD sold three vessels for \$10 per vessel. The most recent sale was for two vessels at \$105 per vessel on December 21, 1999.

LOSS OF OVERSEAS MARKETS CONTRIBUTED TO THE DECLINE IN SCRAPPING

MARAD suspended the sale of vessels to overseas scrappers in 1994 because the EPA prohibited the export of Government-owned ships containing PCBs. In September 1998, an Administration moratorium halted all sales of Government-owned vessels for scrapping overseas. The moratorium expired on October 1, 1999, but MARAD has refrained from exporting vessels overseas for scrapping.

Based on a 1997 agreement between MARAD and EPA, MARAD is required to request EPA's approval to sell vessels to overseas contractors that can scrap them in an environmentally compliant manner. The agreement requires MARAD to ensure that all liquid PCBs in transformers, capacitors, hydraulic and heat transfer fluids and that all "readily removable" solid PCBs are removed prior to exporting these vessels. This agreement also requires EPA to notify countries of import that they will be receiving vessels and that these vessels may contain PCBs. To date, MARAD has not requested EPA approval to sell any of its vessels awaiting disposal to overseas scrappers. However, on April 14, 2000, the Maritime Administrator sent a letter to the EPA requesting its assistance on developing an option for exporting vessels for scrapping and implementation of the 1997 EPA/MARAD agreement.

LIMITED DOMESTIC CAPACITY HAMPERS PROGRESS IN SCRAPPING

Since 1995 MARAD has been relying on the domestic market, but capacity in the domestic market is limited. In the 1970's, there were 30 U.S. contractors in the ship scrapping industry. Over the past 19 months, however, only four companies have bid on MARAD's scrapping contracts and passed MARAD's technical compliance review to scrap vessels. These four companies can only handle approximately one to five vessels at a time, depending on the size of the scrap yard and the dimensions of the vessel. For example, one company could only scrap two or three vessels per year. According to industry sources, it takes approximately 4 to 6 months to completely scrap a MARAD vessel.

Additional companies are not attracted to this industry because of the low profits currently available. Scrap steel prices in the United States are low and contractors must comply with environmental regulations. Most of the domestic scrapping company officials we contacted indicated that the profit from scrapping vessels is not worth the effort. At a minimum, contractors in this business must pay for the towing costs and provide \$150,000 as a performance bond to secure a vessel after a contract has been awarded. Contractors receive no return on a vessel until scrap metal and the equipment removed from the vessel are sold.

Even when it has been able to sell vessels, MARAD has encountered problems with domestic contractors. In 1999, MARAD sold 17 vessels to 3 ship scrapping com-

panies located in Brownsville, Texas. At the time of our review, we found that only two companies were actively scrapping ships, and only one of these companies was currently scrapping a MARAD ship. MARAD has granted a number of extensions to contractors, and in one instance, MARAD had to resell vessels because of contractor default. During our review, we also found that another company had not taken possession of any vessels because of an ongoing dispute with the Port of Brownsville regarding contamination of its scrapping site. It has since taken possession of its vessels.

NAVY PILOT PROJECT POSES COMPETITION FOR MARAD

The Department of the Navy experienced a similar inability to sell its combatant vessels for domestic scrapping. In 1998, Congress authorized and appropriated funding for a Navy pilot project for the disposal of obsolete warships. The Navy and MARAD are coordinating efforts to improve ship scrapping programs, as recommended by the Interagency Panel on Ship Scrapping and the General Accounting Office. The Navy agreed to share its findings from the pilot project with MARAD.

On September 29, 1999, the Navy awarded four cost-plus contracts totaling \$13.3 million for the scrapping of four vessels under its new Pilot Ship Disposal Project. This pilot project departs from the sales contracting process by providing for cost plus incentive fees for scrapping the first vessels. It guarantees profitability by providing for the cost of scrapping the vessels and gives the contractor the opportunity to earn incentive fees, which encourages and rewards superior contractor performance. If the contractors are successful in scrapping the first 4 vessels, they will be given the opportunity to scrap more vessels, potentially leading to the disposal of 66 warships.

One of these contractors was also under contract with MARAD to scrap its vessels. The company completed scrapping four MARAD vessels during 1998 and 1999; however, it defaulted on a contract for another five MARAD vessels in August 1999.

MARAD cannot compete with the Navy's pilot project while it is required by law to maximize financial return on its vessels. If MARAD were authorized to implement such a project, it could cost as much as \$515 million to dispose of the obsolete vessels that MARAD expects to have by the end of FY 2001.

ALTERNATIVES OFFER POTENTIAL BUT HAVE LIMITATIONS

While MARAD has been pursuing ways to improve scrapping sales, its ability to explore creative solutions for disposing of vessels is constrained by the requirement to maximize financial returns. Also, the alternatives MARAD is pursuing have capacity limitations, so no one single option has the potential to significantly reduce the backlog of vessels awaiting disposal in a timely manner. We have identified additional alternatives that MARAD has not pursued that may have the potential to contribute to the goal of disposing of obsolete vessels.

Programs to improve scrapping sales and alternatives MARAD is pursuing include: coordination with the Navy and a west coast company on a proposal for a potential scrapping site; participation in interagency work groups to look for innovative ways to improve the ship scrapping process and establish consistent procedures; donation of vessels designated for disposal for uses such as museums and the fish reef program, given legislative or executive approval; and coordination with the Navy on its program to sink vessels in deep water after hazardous materials are removed.

MARAD may be able to explore alternatives that have the potential to assist in disposing of some of its vessels such as: selling vessels to other countries for non-military uses, given legislative approval and approval from the EPA to sell vessels to overseas markets that are capable of scrapping them in an environmentally compliant manner.

According to MARAD, selling vessels overseas for non-military uses would require a change in the law that only allows MARAD to sell vessels for disposal or non-transportation use. However, legislation was passed in 1996 for four vessels to be sold on a competitive basis for operational use. One vessel was sold in 1999 and bids on two vessels are currently under review. The fourth vessel requires an EPA approval, which MARAD requested April 1999.

On April 14, 2000, MARAD sent a memorandum to EPA requesting its assistance in facilitating an export option for scrapping based on the 1997 EPA/MARAD agreement. MARAD also said it would contact the EPA staff to discuss recommendations made by the Interagency Panel on Ship Scrapping.

DISPOSAL PLAN AND PROMPT ACTION ARE NEEDED

The National Maritime Heritage Act of 1994 requires MARAD to dispose of its obsolete vessels by the end of FY 2001, which is an extension from 1999, the original deadline. MARAD does not have a plan to dispose of these vessels.

In our March 10, 2000 audit report, MA-2000-067¹, we recommended that the Maritime Administrator:

1. Seek legislative approval to extend the 2001 mandate to dispose of obsolete vessels and to eliminate the requirement that MARAD maximize financial returns on the sale of its obsolete vessels.
2. Continue to pursue programs to improve scrapping sales and identify alternative disposal methods that can contribute to the goal of reducing the number of obsolete vessels awaiting disposal, to include working with the Navy on the results of its studies on the environmental impact of sunken vessels.
3. Develop a proposal for submission to Congress seeking approval and funding for a project to pay contractors for vessel scrapping. The proposal should include a plan to target the "worst condition" vessels first, identify funding and staffing requirements, and provide milestone dates to dispose of all obsolete vessels.

MARAD concurred with our recommendations. In its FY 2001 authorization request, MARAD proposed a "five year extension [in the deadline that] will provide MARAD with additional time to develop and begin implementing a plan to dispose of these vessels." Considering the condition of some of the vessels, the environmental risks, and the costs to maintain them, we find the MARAD proposal unacceptable. MARAD must develop and implement a disposal plan for its obsolete vessels once legislative approval is obtained for an extension.

As a part of its disposal plan, MARAD must state specific milestones and steps it will take to scrap its obsolete vessels within the next 5 years. The plan must state how MARAD proposes to dispose of these vessels taking into consideration all the available options. MARAD must identify viable disposal methods, and target the "worst condition" vessels for priority disposal.

Mr. Chairman, this concludes our statement. I would be pleased to answer any questions.

Chairman SUNUNU. Mr. Graykowski.

STATEMENT OF JOHN E. GRAYKOWSKI

Mr. GRAYKOWSKI. Thank you, Mr. Chairman. And thank you, members of the Task Force, for the opportunity today to appear before you to talk about what we consider to be a serious and a growing problem with national significance.

By way of background, I am John Graykowski and I am currently the Acting Administrator of the Maritime Administration, which is a modal administration within the Department of Transportation. MARAD is a small Federal agency with a large portfolio of responsibilities generally focused on the promotion, enhancement, and strengthening of the U.S. maritime industries, consisting of vessel owners, maritime labor, our shipyards and our ports.

MARAD performs these duties in direct support of U.S. national and economic security objectives, one of which is to maintain a commercial sealift capability and shipyard capacity to be made available to the Department of Defense in times of war, national emergency, or under Presidential directive. In effect, MARAD serves as a bridge between the national defense apparatus of the country and the commercial maritime assets which are critical to support national needs.

I note the attendance today of one of our major partners in our effort to support the United States maritime industry, Vice Admiral Amerault, who will, I am certain, concur that our current defense posture relies heavily on the commercial maritime industry to maintain its readiness and response capabilities.

¹ Report on the Program for Scrapping Obsolete Vessels, MARAD, March 10, 2000.

Mr. Chairman and Members of the Task Force, it is precisely this partnership with the Department of Defense that has created the situation we have today, where a civilian agency, MARAD, has control and title to a large fleet of obsolete ships around the country.

I have submitted written testimony and I will thus simply summarize a few points:

One, the problem is ours, the Federal Government's problem. It is our responsibility to fix it. No matter how hard one might try to look at it differently, these are government ships, they are stored and maintained by the government and required by law to be disposed of properly by the government.

Secondly, the problem will not go away on its own. Indeed this problem grows larger with each passing day, both in terms of the increasing number of ships that need to be scrapped and in the simple and inescapable fact that like all of us, ships get old, steel wastes, and structural integrity degrades. We simply cannot ignore it. We can't pretend it doesn't exist and we can't simply persist in holding our collective breaths each time there is a storm near one of these fleets or in the calm of the night that something, quote, "bad" might happen.

We are paying considerable amounts of money now, as the Chairman noted, and that amount of expenditure will continue to grow. For example, we spent around \$3 million last year just to take care of this fleet. We anticipate spending perhaps five times that in the next couple of years unless we resume scrapping operations.

As the Chairman referred to and wanted me to speak to, last year with that ship right there, the *Export Challenger* which is some 40 years old, we and the taxpayers spent \$1.3 million to pump out some oil, to fix it up and return it to site in the James River where she sits today. And this, Mr. Chairman, and all of you, as all of us who are responsible for managing the taxpayers' resources, it is very hard to justify that type of expenditure but it is not going to stop with the *Export Challenger*.

We are going to begin, and it is no secret to Admiral Amerault or anybody familiar with this program, we are going to begin dry docking these ships, ships such as the *Export Challenger*. Their average age is 48 years old. That is older than me, I think it is older than the Chairman and older than others here, at the cost of \$900,000 apiece minimum, because we don't know what it is going to take once they are in the dry dock to fix them up.

We will have 155 ships under our control at MARAD by the end of 2001. Anyone here can do the math and see that it will cost this country hundreds of millions of dollars in the next decade. And what do we end up with? Exactly what we have today—155 ships sitting in the James River, Beaumont, Texas, and Suisun Bay—unless we resume scrapping.

How we got here has been chronicled in my written testimony. Admiral Amerault will speak to it. Tom Howard just spoke to it. I am not going to repeat it. I will say, however, that there have been a series of decisions taken within our government that have resulted in the current impasse, decisions that were well founded in intention and desire but which did not address the fundamental

and again inescapable fact that something has to be done with these vessels.

In a sense, I think that we have substituted in the last 7 years an appearance of action on this problem for real action while the infinite patience of time continues to take its toll on our vessels. But I would caution all of us against leveling recriminations against any of the agencies or people who have been involved in this matter, since that would, I believe, undermine our common purpose and desire to eliminate these ships as fast as possible and in the most responsible fashion we can.

Mr. Chairman and members of the Task Force, my agency MARAD is forbidden by law to do anything other than sell these ships. We did it for quite a number of years and very successfully and yielded a lot of money that was used to offset our need for appropriations. But because of this situation, MARAD has not taken any of the actions that might be necessary to inventory the fleet for both the hazardous materials that might exist and to estimate possible recoveries from the sale of metals from the ships. To do that would require a huge amount of money and a devotion of staff resources that we simply don't have at this time.

However, let me stress, if the statutory mandate is changed, and MARAD is given the authority to pay for scrap vessels domestically, MARAD is fully prepared, equipped and, I would submit emphatically, the right agency for the job. We are already charged by DOD for these, to take care of these vessels and to keep the ready reserve force ready to fight, and we do that in an outstanding fashion. We know these vessels, we know the shipyards that might be willing to participate in a program, and indeed we have a very strong and vibrant relationship with those shipyards that is in all senses a commercial partnership by virtue of the other programs MARAD implements. Thus I am confident that if directed by Congress, we, MARAD could establish a program that yields the best value to the government. We have proved that elsewhere and I am confident we would do it here.

Finally, Mr. Chairman, members of the Task Force, we all need to remove the extensive mystery about ship disposal—and I mentioned this to you yesterday—the mystery which leads to imposing regulations and treating this situation different from disposal situations elsewhere.

A ship is nothing more in a sense than a building. It differs because it floats, but it is a building. Fifty years ago, just as buildings were made using materials such as asbestos and PCBs, so are ships. But the problems are the same, the challenge is identical, and the technical responses to that need to be much different, whether it is a ship or a building. We have those resources, we have that capability, and we have the ability to take care of the problem.

I thank you for your interest, look forward to working with you, and again this is a long overdue opportunity.

Chairman SUNUNU. Thank you very much Mr. Graykowski.

[The prepared statement of John Graykowski follows:]

PREPARED STATEMENT OF JOHN E. GRAYKOWSKI, ACTING MARITIME ADMINISTRATOR,
U.S. DEPARTMENT OF TRANSPORTATION

Good morning Mr. Chairman and Members of the Task Force. I welcome the opportunity to be here today to discuss an issue of great importance to the Maritime Administration (MARAD)—the disposal of obsolete government vessels. As you know, the Federal Property and Administrative Procedures Act of 1949 designates MARAD as the Government's disposal agent for merchant type vessels of 1,500 gross tons or more. Thus, in addition to MARAD's own National Defense Reserve Fleet (NDRF) obligations, the agency has taken title to over 40 merchant type Navy ships for disposal in the last 2 years.

Currently, there are 114 vessels slated for scrapping moored at the James River Reserve Fleet in Ft. Eustis, Virginia; Beaumont Reserve Fleet in Beaumont, Texas; and Suisun Bay Reserve Fleet in Benecia, California. This number is expected to grow to 155 by the end of Fiscal Year 2001 if additional vessels are not disposed of. MARAD is committed to finding an appropriate means of scrapping these vessels safely, economically and in an environmentally sound manner.

Under the National Maritime Heritage Act of 1994, MARAD is required to dispose of obsolete NDRF vessels by September 30, 2001, in a manner that maximizes financial return to the United States. Fifty percent of the amounts received from scrapping are to be used by the Maritime Administrator for the acquisition, maintenance, repair, reconditioning or improvement of NDRF vessels. Twenty-five percent is to be used for expenses incurred by the State or Federal maritime academies for facility and training ship maintenance, repair, modernization and the purchase of simulators and fuel; the remaining 25 percent is to be made available to the Secretary of Interior for maritime heritage grants.

Historically, MARAD's primary means of disposing of obsolete vessels has been to sell them for scrapping. From 1987 to 1994, MARAD sold approximately 130 obsolete vessels for scrapping overseas. During that period the agency received an average of \$108 per ton for those ships.¹ Since an average ship in the NDRF weighs approximately 6,000 tons, the gross returns for scrapping such a ship overseas have been about \$600,000.

Since 1995, MARAD has not scrapped any vessels overseas due to concerns raised by the Environmental Protection Agency (EPA) about the export of hazardous substances. Specifically, the EPA advised MARAD of its position that the export of a Government ship for scrapping was the equivalent of distributing in commerce regulated quantities of Polychlorinated Biphenyls (PCBs) under the Toxic Substances Control Act (TSCA). In November 1995, EPA issued a discretionary enforcement letter to MARAD allowing the export of two ships for scrapping once all PCBs had been removed. That procedure was unworkable since the removal of all PCBs could have compromised the watertight integrity of the ships.

In 1997, MARAD and the EPA signed an agreement allowing foreign ship disposal after removal of liquid PCBs and readily removable solid PCBs. Prior to implementation of the export agreement, however, the Department of Defense formed an Interagency Panel on Ship Scrapping to review the process for scrapping Government vessels. Thus, in January 1998, MARAD agreed to continue to refrain from selling any vessels for scrapping abroad until the Panel had completed its review. Additionally, in the fall of 1998, an executive memorandum requested that MARAD and the Department of Defense observe a moratorium until October 1, 1999, on the export of obsolete vessels to be scrapped, to ensure that the Panel's recommendations were fully considered. MARAD complied with this request.

The Interagency Panel, composed of representatives from DOD, the EPA, the Occupational Safety and Health Administration (OSHA), the Department of State, the Department of Justice, the U.S. Coast Guard and MARAD reviewed the process and procedures for scrapping ships. The Panel made recommendations regarding economic soundness and environmental and worker safety. It also concluded that all options for ship scrapping, including overseas scrapping, should remain open.

With regard to exports, the Panel made a number of recommendations—such as expansion of the notification process to importing countries regarding the presence of hazardous materials, and the requirement for bidders to submit a technical compliance plan—which could be incorporated into the process relatively quickly. Nevertheless, developing meaningful technical assistance, and determining how to enforce contractual requirements and monitor contractual performance overseas could take significant time and resources to implement.

¹ All references to tonnage in this statement are to lightship displacement tonnage. Lightship displacement tonnage refers to the actual weight of the ship.

Since 1996, MARAD has been exploring the domestic ship scrapping market. The agency has revised its solicitation process for domestic sales, incorporating environmental and safety issues as part of the award. A bidder is required to submit a technical compliance plan including environmental, worker health and safety, business, and operational plans that describe the bidder's knowledge and ability to address the problems inherent in ship scrapping. Following a review of the bidder's technical compliance plan, its compliance history and a site visit, MARAD awards vessels to qualified bidders on the basis of price. During the scrapping process, MARAD also conducts both announced and unannounced visits to the scrapping site to monitor the contractor's compliance with the sales contract.

Unfortunately, the capacity of the domestic market for buying and scrapping obsolete MARAD ships is limited, and the drop in the price of scrap steel has eroded the profitability of existing scrappers. Moreover, only four bidders have satisfied the requirements of MARAD's technical review since 1997, and only 9 of the 22 ships sold domestically during that time have been removed from the fleet sites. Three of these vessels were sold for \$10.00 each. One sales contract for five vessels was terminated last year because the purchaser did not take possession of the vessels. We are likely to continue facing a backlog given the number of ships waiting to be scrapped.

You may be aware that about 40 NDRF vessels are in extremely poor condition. Time is critical in this effort. The cost to the Department of Defense of maintaining each NDRF vessel is approximately \$20,000 per year. However, as obsolete vessels in the NDRF continue to deteriorate, the costs of upkeep will rise. For example, the *Export Challenger*, a vessel in the James River Virginia Reserve Fleet, experienced a relatively minor release of oil in 1998. Due to the deteriorated condition of the hull, the remainder of the oil aboard needed to be removed. The combined cost of clean up and removal of oil from the vessel was \$1.3 million. The cost of dry-docking a vessel in order to prevent it from sinking is estimated to be about \$900,000 per ship. MARAD expects to begin dry-docking 16 obsolete vessels in poor condition per year beginning in fiscal year 2002 in order to avoid environmental problems. In the meantime, these ships are monitored closely by MARAD to prevent sinking or a hazardous discharge.

We are fully committed to working with Congress to find a swift and appropriate solution for scrapping obsolete NDRF vessels. MARAD's authorization proposal for fiscal year 2001 contains a provision that would extend the deadline for the disposal of obsolete NDRF vessels from 2001 to 2006. During this period, MARAD intends to develop and implement a program to scrap these vessels safely, economically and in an environmentally sound manner.

In addition, Maritime Administrator Clyde J. Hart, Jr. recently wrote to Carol Browner, Administrator of the EPA, seeking to explore the possibility of resuming exports in a manner consistent with the prior agreement negotiated between EPA and MARAD. Although we have not yet received a response to our inquiry, we do not believe that this option has been foreclosed.

Mr. Chairman and Members of the Task Force, we appreciate the concern that you have shown in this area and want to assure you that we are working diligently to resolve the matter as soon as possible. This concludes my statement. I would be happy to answer any questions you may have.

Chairman SUNUNU. Admiral.

STATEMENT OF VICE ADMIRAL JAMES F. AMERAULT

Admiral AMERAULT. Good morning, Mr. Chairman, and distinguished members of the Task Force. I am very pleased to appear before you today to discuss the Navy's approach to reducing our own inventory of excess ships. With your permission, I would like to submit my prepared statement for the record but take a few minutes here to give you a shortened summary version.

Chairman SUNUNU. Without objection.

Admiral AMERAULT. Thank you sir. The Navy's Inactive Fleet has 57 ships designated for scrapping. The decision to scrap a Navy ship is made only after carefully evaluating all other options, and these include several such as retention as a mobilization asset, sale to allied Nations under the foreign military sales program, use as

a war memorial or historical museum, use for training, or use as a weapons development asset.

The Navy's primary interest is to dispose of all of our excess ships in a manner that is environmentally sound, economically neutral, and worthy of the proud service that these ships have performed for this Nation.

Historically, the scrapping rights to our ships have been sold to domestic shipbreakers, very much like what has gone on in the MARAD fleet. More recently, environmental concerns, worker safety, and changing economic conditions have impacted the methods and locations available to scrap our ships. Up until the mid-1990's, domestic shipbreakers were willing to pay for the rights to scrap Navy ships because the value of metal and other equipment in the ships offset their costs and provided a profit. This, of course, matched our goals and reinforced our expectation that Navy ships could be scrapped at no cost to the Navy. However, since 1996 eight scrapping contracts have defaulted, causing the Navy to expend over \$12 million to return 28 ships to a safe storage condition. So within Navy we faced a dilemma: A backlog of ships to be scrapped was growing but there was no domestic market in which scrapping could be accomplished at no cost.

Consequently, we began in 1997 to work with EPA to determine the conditions under which scrapping might be accomplished overseas. In 1998 increased interest by the Congress and the public resulted in both the Vice Presidential and Secretary of the Navy moratorium on overseas scrapping. At the same time, the Under Secretary of Defense for Acquisition and Technology created an inter-agency panel to explore the problems and solutions to disposing of excess Navy and MARAD ships. The panel recommended that the Navy conduct a pilot program to determine the conditions under which domestic scrapping could be made feasible.

Consistent with this recommendation the Navy developed a ship disposal project with a pilot phase that was designed to qualify and quantify the technical scope and costs associated with ship scrapping. That pilot phase is currently underway. The goals of this project are:

1. To document all processes, costs, revenues and hazardous materials generation while demonstrating an environmentally sound and cost-effective method for dismantling ships;
2. To minimize the Navy's net cost of ship disposal by realizing a fiscal return on scrap metal and other equipment sales; and
3. Develop a viable domestic capability to scrap additional ships from the Navy's inventory after the pilot phase is completed.

A significant feature of the ship disposal project is that the Navy, not the shipbreaker, assumes the risks associated with the vagaries of the scrap metal market and equipment resale. The shipbreaker's profit is set in terms of the contract. Proceeds generated by the sale of scrap metals in excess equipment are then credited against the cost of the contract.

It is by decoupling this volatile scrap market from the contractor's profit or loss that a contractor can establish a stable economic model within which scrapping processes can be optimized, and hopefully that is our solution to defaulting contracts.

In September 1999 we awarded four indefinite delivery/ indefinite quantity contracts for the pilot phase. The initial task order under each of these contract is to dispose of one ship—and all ships, by the way, all four are exactly the same type and model of ship—to dispose of one ship under a cost plus incentive fee structure. Progress to date has been satisfactory. The data concerning the processes utilized and the cost revenue stream is being collected but has not yet been completely evaluated. The last of the four ships should be completely dismantled and all materials recycled in the fall of this year.

It became obvious to us during the initial performance of these task orders that much of the contract cost was attributable to process start-up of an infrastructure facilitation required for the dismantling process to provide further insight into the true cost of shipbreaking. Two additional task orders were awarded under the pilot phase on May 24th of this year under a fixed price incentive structure.

Task order awards after the pilot phase will be made following careful examination of the data collected and dependent upon the availability of Navy funding.

The Navy has also worked with MARAD on the ship disposal problem for several years. Through group participation in several joint agency working groups, we have shared our technical and process information. We will continue our open dialogue and provide the ship disposal project data when it is completely available to MARAD.

In summary, the Navy is committed to dismantling our excess ships in a way that is environmentally sound, publicly acceptable, and advantageous to the Navy and the government. The ship disposal project assists in accomplishing these goals while providing empirical data on the processes and costs associated with domestic ship scrapping in an environmentally safe way.

Mr. Chairman and member of the Task Force, this concludes my remarks. Thank you for your interest in the program. I would be happy to answer questions that you may have.

Chairman SUNUNU. Thank you, Admiral.

[The prepared statement of Admiral James Amerault follows:]

PREPARED STATEMENT OF VICE ADMIRAL JAMES F. AMERAULT, DEPUTY CHIEF OF
NAVAL OPERATIONS (LOGISTICS)

Mr. Chairman and distinguished members of the panel, thank you for the opportunity to appear before you to discuss the Navy's approach to reducing our inventory of excess ships and how we are working with the Maritime Administration on this problem. We sincerely appreciate your interest in our program and processes.

Before going further, I would like to note for the committee that I have not included in my testimony any discussion of our process for disposing of nuclear powered warships. This is because that work is accomplished exclusively in our public shipyards and is subject to requirements more stringent than those necessary to dispose of non-nuclear powered ships.

I also wish to point out that Navy warships may present a more complex dismantling challenge than traditional merchant ships due to two facts. First, our warships are constructed to maintain mission capability despite battle damage; and second, they have a high density in terms of equipment and compartments.

The Navy's interest is to dispose of our excess ships in a manner that is environmentally sound, economically neutral and worthy of the proud service they have performed for this nation.

Let me now briefly explain the process we use to determine the manner in which we dispose of our conventionally powered ships. After a careful evaluation, the Chief

of Naval Operations may declare a ship to be "excess" to the current operational needs of the Navy. The next step is to determine if the ship is required as a Mobilization Asset. If the ship is needed, it is placed in a state of preservation such that it can be reactivated and returned to active service.

If the ship is not needed as a Mobilization Asset, then it is made available for sale or lease to an allied Navy under the Foreign Military Sale/Lease program.

If the ship is not a candidate for lease, it is stricken from the Naval Vessel Register and may then be designated for transfer to a nonprofit organization for display as a historical memorial or museum. The requirements and mechanics of these transfers are governed by statute.

If not designated as a potential historical museum or memorial, the ship may be made available for Navy fleet weapons training or developmental testing of weapon systems. If used in this manner, the ship is usually sunk as a result of the training or testing. Therefore, prior to conducting the training or testing the ship is prepared in accordance with requirements set forth by the Environmental Protection Agency.

The ship may also be held as a logistics support asset to fill requests by active ships for parts or equipment that are no longer manufactured or stocked.

If the ship is not disposed of or held for any of the aforementioned purposes and it is a merchant type ship, then it must be transferred to the Maritime Administration (MARAD) in accordance with Federal Property and Administrative Services Act of 1949. Navy ships transferred to MARAD supplement the National Defense Reserve Fleet.

If it is not practical to use the ship in any of the ways I have mentioned, then the ship is designated for scrapping.

Ships that are declared to be in excess and are awaiting final disposition enter the Navy's Inactive Fleet. Today the Navy Inactive Fleet has 144 ships in its inventory, 28 of which are being prepared for transfer to MARAD, and 57 of which are designated for scrapping. The average age of the ships waiting scrapping is approximately 37 years and they have been out of active Navy service for an average of 7 years.

The traditional method the Navy used to scrap conventionally powered ships was to engage the Defense Reutilization and Marketing Service (DRMS) as a Government sales agent to sell the scrapping rights to a domestic shipbreaker. Proceeds from the sale of these rights were deposited with the United States Treasury, not the Navy. The shipbreaker's profitability was solely a function of his costs and the price of scrap metals on the open market.

No matter where the shipbreaking is accomplished, the "Title" to the ship remains with the Navy until the ship is deemed by the Navy to no longer be a ship. This generally occurs when the hull is no longer floatable. I think it is important to note that while the Navy holds the title it is the Navy that is presumed to be responsible for the disposition of the ship, even if the shipbreaker defaults on the contract.

Until 1996, DRMS awarded scrapping rights principally to the highest bidder. As scrap metal prices began fluctuating in the mid-nineties, these shipbreakers experienced fiscal difficulties leading in many instances to contract defaults.

In 1996, DRMS awarded scrapping rights principally to the highest bidder. As scrap metal prices began fluctuating in the mid-nineties, these shipbreakers experienced fiscal difficulties leading in many instances to contract defaults.

Under the old sales to the highest bidder process, eight scrapping sales contracts were defaulted and five sales contracts were completed between 1996 and 1999. The Navy has expended approximately \$12 million since 1996 to return 28 of the ships from the eight defaulted contracts to a safe storage condition. Under the new two-step sales process, only two contracts have been awarded. One contract has been satisfactorily completed and contract default procedures have been initiated on the second contract. The contractor being defaulted has informed DRMS that it does not intend to pick up the eight remaining ships under this two step sales contract because the company will lose money.

Since the domestic scrapping industry was not meeting the needs of the Navy, the Navy entered into an agreement with the Environmental Protection Agency (EPA) in 1997 that identified the conditions under which EPA would exercise enforcement discretion against the Navy for exporting vessels that may contain regulated levels of PCBs for disposal.

At about that same time, Congress and the media increased their interest in both the environmental and safety concerns associated with ship scrapping. Overseas scrapping came under scrutiny; and some foreign scrappers were identified as not adhering to procedures that protected the environment and their workforce, especially when compared to the standards required in the United States. In response, on 19 December 1997, the Secretary of the Navy (SECNAV) suspended all initia-

tives to explore overseas ship scrapping. In addition, congressional hearings on ship scrapping were conducted in March 1998 and June 1998.

As a result of public and congressional interest, the Under Secretary of Defense (Acquisition and Technology) established the Interagency Ship Scrapping Panel on 24 December 1997. The panel was charged to review Navy and MARAD scrapping programs and investigate ways to ensure that Navy ships are scrapped in an environmentally sound, economically feasible and occupationally safe manner.

The panel issued its report in April 1998. One of its recommendations was that the Navy carry out a pilot project to quantify the scope and costs associated with ship scrapping in private industry. This pilot project would also serve as a vehicle for gathering information to improve the ship scrapping process.

On 23 September 1998, Vice President Gore requested both Navy and MARAD to observe a moratorium on efforts to award contracts or transfer vessels for scrapping overseas. This moratorium expired on 2 October 1999; however, Navy continues to operate under the previously mentioned SECNAV suspension.

Consistent with the panel's recommendation, the Navy initiated the Ship Disposal Project (SDP) in 1999 with three goals in mind. These are:

1. Document all processes, costs, revenues, and hazardous material generation while demonstrating an environmentally sound and cost effective method for dismantling ships;

2. Minimize the Navy's net cost of ship disposal by realizing a fiscal return on scrap metal and equipment sales; and

3. Develop a viable domestic capability to scrap additional ships from the Navy's inventory after a pilot phase is completed.

The Ship Disposal Project is structured in two parts. The first part, referred to as the "pilot," is underway and is intended to gain insight into the process and costs of scrapping warships. Navy will gather all revenue and expense data, document quantities and locations of hazardous waste that are generated during the scrapping process, and develop cost models for future decision making. The domestic shipbreaker is required to maximize the value (within a specified time period) of the recyclable equipment and scrap metal and sell these items as an offset to the Navy costs incurred under the contract. Part Two of our Ship Disposal Project is to award additional ships to one or more of these same shipbreakers as funds are available.

A significant feature of our Ship Disposal Project is that the Navy, not the shipbreaker, assumes the risk associated with vagaries of the scrap metal market and equipment resale. The shipbreaker's profit is set in the terms of the contract (i.e., cost contract or fixed price contract). Any proceeds realized from the sale of scrap metal or equipment are used to offset Navy contract costs. With this decoupling mechanism in place the contractor can establish a profitable economic model to optimize scrapping processes. The contractor is paid for the services he provides. The SDP also features a performance incentive for effective environmental and safety programs.

The Navy's Supervisor of Shipbuilding, Conversion, and Repair (SUPSHIP) performs oversight and contract administration for the SDP. This allows the contractors to benefit from the Navy's ship repair experience and further facilitates the exchange of information between the Navy and the contractor.

Prior to a ship arriving at a contractor's facility for scrapping, the Navy accomplishes some environmental remediation of the vessel. Nearly all hazardous waste and some other hazardous materials are removed from the ship. The Navy also performs limited sampling on each vessel to identify the existence and location of other hazardous materials.

On 29 September 1999, Navy awarded four Indefinite Delivery/Indefinite Quantity (IDIQ) contracts under Phase One of the Ship Disposal Project (i.e., the pilot phase). The initial task order under each of these contracts is to dispose of one ship under a Cost Plus Incentive Fee structure. Progress to date by the four domestic contractors has been satisfactory. Data concerning the processes utilized and cost/revenue stream are being collected but have not yet been evaluated. The last of the four originally awarded ships should be completely dismantled and all materials recycled in the fall of this year.

Two additional task orders were awarded under the pilot portion of the SDP to provide the Navy with further insight into shipbreaker's start-up costs. These additional task orders were offered under a Fixed Price Incentive structure to provide additional encouragement to reduce dismantling costs.

Decisions concerning Phase Two task order awards will be made after careful evaluation of the data collected during the pilot phase and are dependent on the availability of funding.

The Navy has worked with MARAD on the ship disposal problem for several years. Through participation in several joint agency working groups, we have shared

our technical and process information. We will continue our open dialogue and provide the Ship Disposal Project data when it is available.

In summary, our Ship Disposal Project is pursuing the goal of dismantling our excess ships in a manner that is environmentally friendly, publicly acceptable, and advantageous to the Navy. The backlog of ships awaiting disposal presents an increasing burden on the Navy's resources and could present an environmental concern as they continue to age. We are committed to eliminating our backlog and avoiding any environmental risks. The Ship Disposal Project assists in accomplishing these goals while providing empirical data on the processes and costs associated with domestic ship scrapping. In addition, we continue to look for and study other disposal methods that may contribute to further reducing our backlog and our costs.

Mr. Chairman and members of the Committee, I thank you for your interest in our program and the opportunity to tell you about the Navy's ship disposal goals and programs. I will be pleased to respond to any questions.

Chairman SUNUNU. Let me begin the questioning with Mr. Graykowski. I think you have touched on this in your remarks but I want to be clear as to exactly what the problem is. Why hasn't MARAD at least put together a plan for disposing of obsolete vessels during the period where you have received an extension on disposal, a temporary one, from 1999 to 2001? What has kept you at least from putting together a strategic plan outlining how this might be accomplished?

Mr. GRAYKOWSKI. Well, as I mentioned in my opening statement, Mr. Chairman, first and foremost, we don't have any authority beyond selling the ships at a cost which generates a positive cash flow to the government and we have endeavored to do that. We have had a number of offerings of ships which you know have been taken at low prices and the ships never get picked up. We had one instance of contractor default.

So in one sense we have been sort of struggling to take the program into a domestic context. In 1993 we had run an export program for years generating tremendous amounts of money. We didn't have that much familiarity with domestic scrapping and there were constraints which, frankly, resulted in a lot of conflicting signals, I think, among various agencies as to how we were going to solve this problem. So MARAD tried to respond that way. We have never really explored or had the opportunity to explore with the Navy with respect to a pilot project but I don't think it is fair to say—

Chairman SUNUNU. Do you have any legislative mandate to develop such a plan?

Mr. GRAYKOWSKI. No, we do not have a legislative mandate to develop any plans.

Chairman SUNUNU. Do you think it is, despite the fact that you don't have a plan in place now, do you think that we really can afford to wait 5 years before we begin the disposal process? I was struck by the request by the administration to move that date back 5 years and that the disposal process would have been required to begin then. That would seem to be far too much time, given the condition of the vessels. Would you agree with that?

Mr. GRAYKOWSKI. I think that the perception that was created by the legislation was that we were going to somehow take all 5 years, and then at the end of 60 months we are going to sort of start doing what we came up with to do; and I think that a fairer assessment is give us a reasonable amount of time. We could have, I think, done what we did several years ago, which was asked for 2

years, knowing that that was unrealistic, from our perspective. The 60 months was an outside date.

I don't think in our hearts and minds at MARAD it was going to take that long or be that long and, quite frankly, looking at the development of the interest level within the Congress, both House and Senate, I think it is going to be overtaken by events. I am confident there is going to be some action and directives from the Congress which will both shorten the time and increase the pace of activity.

Chairman SUNUNU. I would tend to agree and very much hope that it is overtaken by proactive events rather than defensive events. And to that point, could you talk a little bit more about the problems associated with the *Challenger*? Was it a single leak, a single fracture, or a series of problems? And again, could you summarize the total cost associated with that one vessel?

Mr. GRAYKOWSKI. I will do that, Mr. Chairman, and I will also—I would like to submit a better answer for the record.

All of these ships, or many of them, have pockets of oil, I mean, for want of a better term. In some cases there are 1,000 barrels and in other cases 20 barrels. But we have surveyed 40 ships and I think I came up with a ballpark figure of some 40,000 barrels of oil that are scattered around the country, which would cause a problem in anybody's district, anybody's river.

On the *Challenger* there were small leaks and the Coast Guard notified us, as I recall, and I may be wrong on this, that this was a problem. And we had to boom it by putting containment booms around her, and were sort of—"directed" is too strong a word—encouraged and supported by the Coast Guard to sort of remediate the potential for additional oil to leak and this is oil deep in tanks. The ships are just laid up in some cases.

Chairman SUNUNU. Are you unable to pump it?

Mr. GRAYKOWSKI. Yeah. You have got to see it to believe it. In some cases, this is bunker oil, if any of you are familiar with the thick, heavy, sludgy stuff which over the years hardens into tar-like road tar. So just the process of peeling open the tanks and heating up the oil, if you will, to the point where you can pump is extensive and a very arduous process. So that is what we went through on her, to the cost of \$1.3 million.

Chairman SUNUNU. All of the effort was done while it was still on the water?

Mr. GRAYKOWSKI. Yes, sir. She still remains there, and indeed we spent some more money down at the James River when Hurricane Floyd came through and we were very concerned. That was the reference I made there, additional funds we didn't anticipate having to spend.

Chairman SUNUNU. How many of the vessels, approximately, of the 40 worst-condition vessels are at or near the condition of the *Export Challenger*?

Mr. GRAYKOWSKI. We have triaged it or identified sort of a priority list and we have got sort of—not a new term—but the "dirty dozen." There are 12 ships that really, Mr. Chairman, are—*Export Challenger*, she is our poster child, but she has a lot of siblings. And so I say there are 12 that really are approaching the condition of the *Export Challenger*.

Chairman SUNUNU. Was it ever in danger of sinking?

Mr. GRAYKOWSKI. I don't think so. I mean, I don't want to impart—it is a tough question to answer.

Chairman SUNUNU. I don't know if that is an encouraging answer or discouraging answer from my perspective.

Mr. GRAYKOWSKI. I could say none of them sunk yet. No, we monitor them carefully, we do the best we can, and I don't think they are in danger of imminent sinking and hulling, absent sort of major storm and waves and conditions that don't exist today. These are calm waters. Congressman Bentsen, I think if he is familiar with where Beaumont sits, is a very well protected area. Over time will they sink? I think it is unavoidable, yes, but not imminent. I would like that message to be there.

Chairman SUNUNU. Has any effort been made to quantify what the potential costs would be of a catastrophic accident, either a sinking or a serious hull rupture of one of these vessels?

Mr. GRAYKOWSKI. I am getting no encouragement from the folks behind me. My bench is weak here. Well, to quantify the costs, fine; what kind of accident, we would have to remediate whatever leakage problem or environmental damage that occurs. And frankly as a lawyer, I have always looked at it as I have got the ultimate strict liability here. I am a generator under EPA, under TSCA, under CERCLA, under Fish and Wildlife and Migratory Birds; there are a whole number of acts out there. And the Federal Government is the ultimate deep pocket, so quantification depends on the extent of damage to a certain extent, but the checkbook is going to be open for a long time.

Chairman SUNUNU. OK. What kinds of marine wildlife are there in the James River, and was there any damage to the ecosystem or the wildlife with the *Export Challenger* accident?

Mr. GRAYKOWSKI. The answer is an emphatic no. There was no damage. We contained very limited minor leaks. We have got a containment boom pretty much around the fleet now in terms of where that is. There are State certified oyster beds. I understand there are a couple of wildlife refuges. Indeed we have ospreys building nests on our ships, and certain times of the year we can't go near them. They are wildlife habitat wetlands which we have got to protect as best we can.

Chairman SUNUNU. Your predecessor, Mr. Hart, wrote at least twice to the EPA requesting a meeting with the Administrator to resolve the issues that are preventing the timely scrapping of government vessels. Has there been any response from Ms. Brown or the EPA today?

Mr. GRAYKOWSKI. Mr. Chairman, there hasn't. I think that recently Deputy Administrator Bonnie Green, who testified in front of Congressman Gilchrest, has written the Administrator of the EPA, and I intend on writing her today to tell her once again that we have testified and we need to work in an interagency fashion.

To date, no sir, there has not been a response.

Chairman SUNUNU. Has the EPA put together guidelines for you or for the Navy, that you are aware of, for the disposing of obsolete vessels?

Mr. GRAYKOWSKI. We have got a memorandum of understanding, if you will, or agreement with EPA on certain conditions that have

to be conformed with before we can scrap a ship, so that is in place. However, there are still some of the guidelines—I was just getting to that. While we have this memorandum, the particulars in terms of the regulations, for instance PCBs, and that the guidelines that we would employ to scrap and to monitor are not in place, sir.

Chairman SUNUNU. Would you explain that in a little more detail? What do you mean, the guidelines aren't in place?

Mr. GRAYKOWSKI. I think that EPA, and I am going to have to elaborate for the record if I could, EPA, we have got this memorandum of understanding, but it lacks sort of—that says we are going to cooperate, and here's the basic structure of that: Before MARAD scraps a ship, you have to clean out all the PCBs, for example, but in terms of the exact procedures and the quantities that would be allowed or not, they are still under development at EPA.

Chairman SUNUNU. I am confused. Does the memorandum, does the agreement that you signed, lay out what you need to do before you can move forward with a scrapping—is that valid or invalid? Either those are the guidelines you need to follow or the EPA has changed their minds and is walking away from this agreement and saying we are going to come up with different guidelines.

Mr. HOWARD. Mr. Chairman, may I speak to the agreement?

Chairman SUNUNU. Please.

Mr. HOWARD. The agreement contains three conditions: one, that all liquid PCBs be removed; that solid PCBs be removed to the extent possible; and that the country that is accepting the vessel be notified that the PCBs were on board and attempts were made to remove them. That is what the agreement covers.

Chairman SUNUNU. Those sound like reasonable guidelines.

Mr. HOWARD. MARAD received authority in 1997 or 1998 to sell two ships under those guidelines. When they attempted to put together a plan that complied with the guidelines they found that once they had removed the PCBs, that the ship wouldn't be seaworthy and it wouldn't be able to be towed to the foreign country that was willing to purchase it.

Mr. GRAYKOWSKI. So we are still waiting for final guidance, if you will, out of EPA to avoid this conundrum.

Chairman SUNUNU. I understand. So you are looking for a little additional guidance so that you won't have to destroy the seaworthiness of the vessel in an effort to scrap it efficiently and economically.

Mr. GRAYKOWSKI. Yes, sir; and I don't know what the status of the guidelines are at this point in time.

Chairman SUNUNU. Has MARAD or anyone else evaluated EPA's environmental concerns to determine whether they are supportable on an environmental or economic basis?

Mr. GRAYKOWSKI. The short answer would be no. I guess it would be very difficult for the Maritime Administration to second guess the Environmental Protection Agency on a determination of environmental—

Chairman SUNUNU. I understand that is not your expertise, but there has been no other outside or independent evaluation.

Mr. GRAYKOWSKI. No. We are sort of leaning—we as a country by approaching it this way are way ahead of, if you will, the rest of the world. Scrapping practices vary worldwide, and what we are

trying to impose as standards and that the Admiral has worked with, for example, is where I believe sincerely the world is going to end up. But it is going to be several years before it gets there, but we will be the first to get there.

Chairman SUNUNU. Thank you very much. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman. I have a few questions. First of all, I am familiar with the Beaumont area, even though I am in Houston. But let me tell you, when a hurricane comes up the Gulf Coast, and a lot of times they head toward an island in the Beaumont area, you can be in that protected part of the Sabine River and still get some pretty good surf over there. In my district back in 1994, as well as just last year, when you get either a storm or a hurricane or heavy rainstorm, you move the current on that river and you can lose control of operating ships.

Plus we had in 1994 a situation with these abandoned barges, some that were beached, that got moved off the beach, off the banks, and smashed into the I-10 bridge, was involved in part setting off an explosion in a pipeline.

So even though you are in a protected water area, the force of nature can sometimes change it, and that is something that we have to be concerned about, particularly in—at least I am most familiar with the Texas areas. And I do understand the environmental hazard related to these with, again, my own experience in going through it with these barges and most of the working ships in the Texas area.

Again, though, it is—and I know you have been having this discussion with Mr. Sununu about this—but it is my understanding that EPA has said that you could—if MARAD would remove the hazardous waste, be it PCB or whatever, then you could direct the vessel for scrapping. And I guess what you are saying is in some cases the vessel becomes unseaworthy and you can't do it. Why not salvage the vessel on site? I mean, we do that. I don't, but the organizations along the Houston ship channel do that from time to time, where they just do an onsite salvaging instead of trying to tow something in and take it apart.

Mr. GRAYKOWSKI. Well, number one—and probably you don't have to go farther than number one—we don't have the money for it, Mr. Bentsen.

Number two, the EPA agreement—let me correct myself if I could, please. And the Admiral was kind enough to tell me this. It pertained to exports, OK and it is very dicey at this point in time politically as well as I think practically, if you will, to be exporting these ships. And so while we have turned our attentions domestically as I have indicated—

Mr. BENTSEN. Can I say that, for a second, on EPA, on the exports, they were opposing the export of the ships because of PCB content?

Mr. GRAYKOWSKI. Primarily; and other what they consider to be toxic waste, they viewed it as—

Mr. BENTSEN. It is an interesting notion, and I only add that because I have had a small battle with the EPA over the last several years changing what has been the position for the last 15 years to allow for the export of PCBs for disposal and incineration abroad, which we believe violates the TSCA act, although EPA seems to be-

lieve that it doesn't. EPA has taken the position that they would like to export PCBs to Mexico and Latin America and other countries where they can be disposed of. Some would argue that this is because the volume of American PCBs is declining and there continues to be industry demand.

So it sounds to me like EPA may have a—the left hand may not know what the right hand is doing at the EPA. I would encourage you all to go back and talk to them.

Now they are under court order precluding them from doing that, from the California circuit, the West Coast circuit and we have tried to block them from doing that through the defense bill in the past. Again, EPA has taken this position that in some cases, at least, you would export PCBs for incineration.

Mr. GRAYKOWSKI. I am incredulous, frankly. This is news to me because when I leaf through, this is the agreement that I signed with EPA in 1997, it specifically links PCBs, the vessels and TSCA and the prohibition against introducing PCBs into international commerce and that is what ground the exporting to a halt.

Mr. BENTSEN. Maybe instead of offering up the ship for scrap metal you should have offered it up for PCB consideration. I would encourage you to revisit that, and that is in the courts, I think the 9th Circuit.

Let me ask you this. The chairman mentioned that the range of cost for addressing this problem would be between half a billion to \$2 million. Why is there that amount of fluctuation or band in the cost? Is it because you don't know necessarily what you have out there until you get into the ship?

Mr. GRAYKOWSKI. We have not inventoried, and I told the chairman this yesterday, we have not really conducted the inventory necessary to say we have 5 pounds or 5,000 pounds of PCBs, I don't know, liquid versus solid. My impression is that most of the liquids have been removed except those transformers and capacitors that are buried in the bowels of the ship. We don't know approximately how much we can get off of the ship. I think the admiral can speak to the fact that—it is a net outlay when you pay to have someone scrap it, but there is a return that we would anticipate having a similar experience with.

Vice Admiral AMERAULT. Assuming you will ask about this anyway, but our program is based on the fact that we are paying someone to scrap the ships. Heretofore that was very difficult to do because they would default, there being no longer a viable market for the scrap material which used to finance the whole venture. So what we do is we reduce their risk of making nothing by paying their workforce and facilitization and other costs, by paying the cost of doing business, if you will, just the labor and so forth.

Any materials that come off the ships that then can be sold in the scrap market are, by contract, used to net the total cost in our favor.

Now, we don't know exactly how well that is going to do and I think it is going to depend on some things, one being facilitization that is taking place up front, and we have paid for that in the four pilots, the four yards that we have used as pilot program participants. Part of what we pay for is the facilitization to be able to handle the environmental and the other things. Once that is done,

then you have learning curve, which can reduce the cost of their operation, and you have of course the value of that material. As you get a good steady throughput and the learning curve comes into play, their costs will go down and you will have a volume of material that you can sell for scrap. And the net, if things were to work out, might, and I say might because we don't have the final information and we don't have this—we don't know how scalable this is, but it could be that the net cost of this whole thing equals the cost of living up to the EPA agreements of taking out the PCBs and making the ships environmentally safe for export. So that is our hope.

Then you would have at least two processes that you could look at and compare. I would think that we would want to try to export a few ships so we could test that hypothesis to see if doing it domestically with a net value, if you will, approach, that we have done in this pilot program is indeed better or if you can still beat it overseas even if you pay the up front environmental costs.

Mr. BENTSEN. It seems to me there would be a couple of factors between domestically and overseas, the laboratory input and the capacity, but also there are some transportation costs associated as well. I am sure that these ships are not cheap to move around.

Vice Admiral AMERAULT. There is a cost of getting them there. That could work in our favor domestically.

Mr. BENTSEN. There are two bills, one being Mr. DeFazio's bill, and I would be interested in your comments on that. I don't know if MARAD has taken a position on that.

The other, in the Senate, the chairman of the Senate Commerce Committee, Senator McCain, has introduced a bill which gives DOT the authority to scrap 39 foreign vessels under terms determined by the agency. Is this an effective way to deal with the problem or do you have a position on that bill?

Mr. GRAYKOWSKI. No, we have not taken a position on any of the legislation. There are four bills in total. We don't have an administration position on any of the bills introduced.

Mr. SUNUNU. If I could interject there, Mr. Howard, those two alternatives, correct me if I'm wrong, were part of the recommendations that you made, one, to release the restriction on these exports, and, two, to authorize MARAD or get rid of the restriction on MARAD from being able to pay to scrap, and that is what Mr. DeFazio's bill does. He includes an authorization amount but of course in order to do that he needs to eliminate that restriction?

Mr. HOWARD. Yes, sir, that is consistent with what we recommended.

Mr. BENTSEN. It seems to me that this is a situation that there isn't going to be much of a market for and we just need to get a handle on this and how much it is going to cost and deal with it because again I realize these ships are docked and they are in somewhat secure waters most of the time, but I guarantee you there will be another storm that will come up high island and there will be more water in Suisun and Beaumont and everywhere else you have these and it is going to become a problem. It would be worthwhile for us to get a handle on this now and address this and figure out a way to do it. This is not unlike a Superfund situation

or any other hazardous waste disposal, we just have to deal with it.

Mr. GRAYKOWSKI. Mr. Bentsen, I didn't mean to imply in my statement that the calm waters are always calm. Hurricane Floyd caused us some sleepless nights. The first report indicated that some of the nests had not broken but they were drifting apart, had hurricane Floyd been stronger and hit differently, our lives would have been differently. These ships cannot withstand heavy water.

Number two, I might take issue with you. I do see a potential for this country. There are 10,000 commercial ships operating around the world. If indeed we set the standard as we have consistently through the years on environmental matters and the rest of the world does catch up and I would point to the Basel Convention, which is part of the U.N. Process, if you will, moving toward declaring obsolete ships as a hazardous waste, the country of the Netherlands, which is a major world shipowner, there was one conference, they are pushing for another one, Norway has been talking about incorporating scrapping into the life cycle cost of the vessel, imputing to owners this notion that you are going to have to pay to scrap.

I would pose to you if we put a program together now with these government ships, quite possibly we are in a position to take advantage of it in a commercial sense when the rest of the world says, oh, my gosh, we are going to have to.

Mr. BENTSEN. That is a legitimate point. I had a discussion last week with some people in the maritime industry in Houston, where there is a discussion going on both in Texas and I think somewhat through the international maritime organization regarding emissions controls. Houston, of course has a serious ozone problem. One idea—and part of the contribution of that comes from the ships that go up and down the Houston ship channel. We can't impose a Houston emissions control policy on ships calling on our port because they will go somewhere else. There probably needs to be a national standard, but it is difficult to impose a national standard with respect to WTO and other international agreements that we have, and perhaps it needs to go through the International Maritime Organization. I do appreciate that.

However, surely you have some ships that are decaying to the point where we may not be able to wait for an international convention to—you know, necessarily get an agreement. We may be talking something more prospective than retroactive.

Mr. GRAYKOWSKI. The imminence is undeniable. I think long term there are benefits to be gained by sort of creating this new industry just as we have seen in other environmental recovery operations. Right now, Mr. Bentsen, we have to do something with, as I said, these 12 or the 40. I mean there are other benefits. We have not really looked at it in a broad perspective. If we attack it, we ought to attack it in a comprehensive fashion. We are dying for people to work in basic shipbuilding industries and trades. The shipyards are essential to the national defense. This is the type of program that can help support them different than building brand new ships. We have a source of labor to keep people coming in because this is another problem that has not been looked at.

Mr. BENTSEN. I agree with that. In order to get there, it may be something that has to be subsidized initially. The chairman doesn't always like to hear that word, but I think he understands as well this may be a situation where the need is great to deal with this problem, and I understand the need and the idea of maintaining shipyard operations. You might be able to match the two. Perhaps in the long run you are right. As in other environmental services which we have seen grow in waste disposal, this may be applicable also.

Mr. GRAYKOWSKI. Yards that I have talked with this about comment that there is a crossover point. If we guarantee a certain feedstock at some point, however many ships, the economies become such that it becomes a positive situation for the company or in this case the joint venture between government and industry. You are running so many ships, ostensibly you get the efficiencies down and the yields up in terms of the metals. And the projections that I have seen show a definite crossover point from subsidy to a revenue generating or certainly a wash situation referred to by the admiral. Until we start it, we are not going to know and we right now don't know much other than our ships are getting old and the problem is getting bigger.

Mr. BENTSEN. Thank you.

Mr. SUNUNU. Thank you.

Ms. Hooley.

Ms. HOOLEY. I am sorry that I missed your testimony but I have the written statements.

Having gone through your information, Mr. Graykowski, do you think we have the capacity to dismantle the ships today in a domestic market?

Mr. GRAYKOWSKI. Nope.

Ms. HOOLEY. You do not?

Mr. GRAYKOWSKI. No.

Ms. HOOLEY. Let me ask the vice admiral if we have enough capacity in domestic market to dismantle the ships?

Vice Admiral AMERAULT. I don't think now. It could possibly be generated but again as Mr. Graykowski said, I think one of the problems in trying to get it generated is what will be the throughput so that when it is capitalized there will be a continuous throughput to pay off that capitalization. So if we were to generate it, it would either have to be subsidized, or there would have to be some feeling that in an economic or business model, that there will be throughput to keep it going.

Ms. HOOLEY. When you say that we don't have the capacity, that has nothing to do with that we may have to pay to get this dismantled, it is simply that there are not enough shipbuilders or facilities?

Vice Admiral AMERAULT. There are people in the ship maintenance business and shipbuilding business and public yards.

Ms. HOOLEY. Which have the capability?

Vice Admiral AMERAULT. Yes. This is not rocket science. You need basically a berm or a dry dock or some sort of containment and metal workers and the new part of it is the environmental sense or the ability to deal with the environmental issues.

Ms. HOOLEY. Don't you think on the domestic side that we have much greater ability to deal with the environmental issues?

Mr. GRAYKOWSKI. Yes, ma'am. I was trying to get at that. I think export ought to be looked at as almost a last resort option. We will have 155 ships by the end of fiscal year 2001 and the Navy has—

Vice Admiral AMERALT. We have 57 that are in excess category that will be disposed of in some way or another, and an additional 28 of which we will turn over to MARAD, so we will add to their problem.

Mr. GRAYKOWSKI. Exporting is almost giving up on the notion that we can do it better. I believe we can do it better here in America. Our standards are higher, but we have proven that is a better way to go. We have yards that are interested. When I say there is not the capacity, today there is not. People are not bidding on our ships because they have to pay us.

Ms. HOOLEY. As long as they have to pay you, they can't afford to do it?

Mr. GRAYKOWSKI. If we turn it around, I am confident that we can put a program together and there will be sufficient people to do it. But we need to do 12 to 15 ships a year, not onesies and twosies.

Ms. HOOLEY. Right now does MARAD have to maximize the economic value of the ships, and is that a problem?

Mr. GRAYKOWSKI. Absolutely. I mean, we went from selling ships in 1993 or so at \$108 a ton which netted us several hundred thousand dollars, netted to the government, so we didn't have to ask for appropriations to the last bid we had accepted was \$10 a ship for the whole ship that people paid us and even those contracts ran into problems.

Ms. HOOLEY. Most of those were foreign; is that right? The bids?

Mr. GRAYKOWSKI. No, the \$10 ship bid was domestic.

Ms. HOOLEY. OK. OK. How much does it cost for you to store these ships? Wouldn't we be better off to pay somebody to dismantle them than storing them?

Mr. GRAYKOWSKI. Well, I have the statutory problem which precludes that. Intuitively, logically, and as a taxpayer, absolutely; but the money that we are spending to care take, which was \$3 million last year, isn't enough to address the problem in a substantive and dramatic fashion. We would still have to increase the amount of money. The admiral spent a lot of money last year just on four ships. But we—you missed the part of the testimony regarding the dry dock. We are projecting that it is going to cost us \$900,000 per ship times 155, and that is sort of a benchmark level of expenditure to just take it into the garage, if you use the analogies of a car. That is every single ship. That is a nonavoidable cost. We are going to spend that irrespective of a scrapping problem or not, but if we have a scrapping problem, we don't have to do it, we can devote the money to scrapping and we will have to do that with fewer ships. That is a function of time.

But your point remains. We are spending the money now and we are going to spend more and more money and end up exactly where we are today with ships sitting in the James River and elsewhere.

Ms. HOOLEY. Didn't the Navy have a pilot project and what happened with that?

Vice Admiral AMERAULT. Yes, ma'am. We still have the pilot program underway.

Ms. HOOLEY. It has been going what, a couple of years?

Vice Admiral AMERAULT. We had a 1999 contract for four ships. We have some money in 2000 that we are applying to two other ships, four contractors. So that ship breaking is underway. All four contractors are working on ships. All four ships are frigates. So if you look at this as a pilot or experiment, the control variable is the same. We had some money in 2000 which we asked for bids to continue. The best value bids were taken up on two of the contractors. So we basically are scrapping two more. We will learn a little more with those two.

What we are hoping to do is find out some data with regard to what are the costs of facilitizing a yard to take care of the environmental aspects of this and other things that they might need to create an efficient ship breaking process that is environmentally safe, by paying for their labor, and then finding out how much the value is in a typical ship in terms of the scrap material and scrap metals. Copper alloys, aluminum, steel, these are all in abundance. That would then net against the cost, and we would like to find out what the net value is and then subtract the initial facilitization, and then we would have some data to say if you create a steady stream and apply a learning curve. Maybe that net cost could go down over time and approach zero, or at least we would know what it would be and we can compare it to exactly the costs that are you talking about. If we do spend money on these ships in both the reserve fleet and in our own reserve fleet or in active fleet to keep them from sinking and having these environmental disasters, and in fact if eventually there is a cost of dry docking at a lot of money, considerable cost, it could be that your present value one-time costs are cheaper than your annualized costs of keeping all of that going.

So I think that is where you are going and that is what the project is all about to some degree. It is not the same kind of ships in their reserve fleet but there should be lessons—

Ms. HOOLEY. But MARAD cannot do a pilot project?

Vice Admiral AMERAULT. They are still enjoined to produce a scrap ship at no cost to the government. It is impossible for them to do that under statute. We are giving them all of the information that we find, or will, and there will be some—I don't know how scalable this is. There are lessons to be learned.

Ms. HOOLEY. Mr. Graykowski, Peter DeFazio from Oregon has introduced a piece of legislation that would allow you to do that. Are you supporting that?

Mr. GRAYKOWSKI. No, we have not taken a position as the administration on that legislation. But I am aware of it and following it with great interest.

Ms. HOOLEY. Why haven't you taken a position? It would seem to me that here is an opportunity for you to do a pilot project, to try this out. You are spending a ton of money keeping the ships, you know. Tell me why.

Mr. HOWARD. If I might comment on that, ma'am, Mr. DeFazio's bill is consistent with the recommendation that we made in our March 10 report. We recommended that the Maritime Administration develop a proposal for a pilot program and seek legislation and

funding for that program. In order to do that, the Maritime Administration has to work that proposal through the Department of Transportation and through the Office of Management and Budget. What they told us in response to our report is that they would work that in next year's authorization bill.

Mr. SUNUNU. Ms. Hooley, recognizing that it wouldn't be good form, to say the least, for Mr. Graykowski to lobby for or against any single piece of legislation, I think it probably does bear emphasizing Mr. DeFazio's bill would be consistent with the goal of helping to build a domestic capability to do this work.

Ms. HOOLEY. Thank you. I am sorry that I put you on the spot.

Mr. GRAYKOWSKI. No, I am not on the spot. Look at—when I say—

Ms. HOOLEY. It just seems to me that it seems stupid. I don't know any other way to put it. It seems stupid that we don't develop our own program in this country based on some of the information that was in your testimony not only to keep our shipyards going and the workers there and trained workers, but it is costing us so much money to store these ships right now and we could be dismantling them in an environmentally sound way and put people to work, and we need to do that in this country. I am hoping that that can be something that we can look at this year, frankly, to begin at least if nothing else a pilot project on figuring out how do we do this the best way possible.

Thank you, Mr. Chairman.

Mr. SUNUNU. Thank you very much.

Let me take some time to ask one final round of questions and begin with the issue of subsidies, foreign or domestic. Mr. Graykowski, your predecessor Mr. Hart attended an international ship scrapping conference in the Netherlands last year, you are probably aware of that. One of the issues they discussed was providing international assistance to improve the working conditions or environmental conditions at ship breaking facilities in third world countries.

My first question, is the U.S. Government to your understanding considering providing any type of assistance to foreign countries or foreign ship breaking facilities?

Mr. GRAYKOWSKI. I am unaware of any efforts. We are not aware of anything at MARAD.

Mr. SUNUNU. Is that something that MARAD would support or oppose?

Mr. GRAYKOWSKI. Hmm. I am trying to be diplomatic here because we are talking about international things.

It strikes me if there is going to be a decision made to subsidize foreign companies and we are not willing as a country to spend the same tax dollars on a domestic program, that that might be hard to sustain politically in the body in which you serve and others serve. That is a gut reaction.

Mr. SUNUNU. EPA's moratorium on exporting vessels, was it based solely on the hazardous materials issue or was it also based on concerns for environmental and labor standards abroad?

Mr. GRAYKOWSKI. Yeah. I am just confirming that.

The moratorium, so-called, we are sort of confusing a number of different events. EPA was concerned about TSCA, as I discussed

with Mr. Bentsen, and in 1993–1994 began to look at ships covered by TSCA and, therefore, restricting its exports. The moratorium was imposed by the administration, by Vice President Gore, to enable this DOD interagency panel to come up with a solution. So in a sense one may have fed into another, and the moratorium was extended until October 1999.

Mr. SUNUNU. Has the government done anything to express concerns, to discuss guidelines or objectives with any foreign ship breaking facilities since these discussions and the panel was convened and the memorandum of understanding was signed?

Mr. GRAYKOWSKI. I know we have maintained contacts. We had relationships with foreign scrapping facilities because we had dealt with them in the past, but let me give you an update in terms of our conversations with them.

Mr. SUNUNU. Has MARAD inspected any overseas facilities since 1994?

Mr. GRAYKOWSKI. No, we have not.

The notion of us imposing our standards on other countries around the world is difficult.

Mr. SUNUNU. Without question. Mr. Bentsen touched on those points, and the imposition of any number of requirements would be a violation of the regulations or the guidelines that we agree to abide by as part of the WTO.

Mr. GRAYKOWSKI. Furthermore, any requirements that we levy on the exports of our ships would require—would raise the cost to the scrap and lower the yield to the government, thereby making our ships less competitive with others.

Mr. SUNUNU. Are there any limits on the use of foreign scrap yards that are imposed on privately owned U.S. vessels?

Mr. GRAYKOWSKI. No, sir.

Mr. SUNUNU. None at all?

Mr. GRAYKOWSKI. They can take a ship any time, any way up to these foreign scrap yards and sell it without restriction.

Mr. SUNUNU. At this point under the memorandum of understanding that has been signed with the EPA, given those guidelines, you have the ability to utilize those breaking yards as well?

Mr. GRAYKOWSKI. Well, you mean under the EPA agreement? Theoretically if we clean up all of the PCBs, we are in that loop, but we have to make the ship unstable.

Mr. SUNUNU. The remaining issue is seaworthiness.

Mr. GRAYKOWSKI. You have to tell the country formally as the United States, we are going to send you a ship that might contain stuff, PCBs and other stuff, which in a political context is hard for a country to say no problem because every country has an environmental movement or green party, however you want to characterize it.

Mr. SUNUNU. It doesn't seem to me that the notification that a vessel going to a breaking yard might contain lead paint or PCBs or residual asbestos would surprise anyone in this country or abroad.

Mr. GRAYKOWSKI. Actually, I think our experience—actually, Mr. Chairman, we did run into a problem in India, which is 50 percent of the world market in scrapping. Because of that we are notifying you, Mexico is another outlet that—you know, I suppose in a lot

of ways people don't know what they don't want to know, if you will. So private people take the ships and run them up on the beach and life goes on. But formal notification to the government, we are sending stuff that might be bad for you, do you mind?

Mr. SUNUNU. I am confident that your technical presentation could be a little more detailed on that.

Let me ask about the growth of the fleet. Do you have the option to object to or reject any additions to the reserve fleet?

Mr. GRAYKOWSKI. There are no additions. We don't have the money.

Oh, no. We have to take them under contract.

Mr. SUNUNU. Why have you never included funds in your budget request to cover the costs of domestic scrapping?

Mr. GRAYKOWSKI. Because we do not have the statutory authority to do anything other than sell them.

Mr. SUNUNU. That has never been part of the budget request either? You have never requested a repeal of that statutory limitation?

Mr. GRAYKOWSKI. No, because we had this DOD interagency panel. So we saw the panel in place and so there was no impetus to develop that legislative position.

Mr. SUNUNU. Admiral, could you run through the costs of the pilot program? You talked about the initial vessels, the two that were done using 2000 money. What have been the gross costs of the contracts that were let, the number of ships for each, and then the amount of scrap credits that have come?

Vice Admiral AMERAULT. I don't have the scrap credit yet, but I can tell you what we have paid so far. There have been four contractors and thus four contracts. Metro Machine Corporation in Philadelphia and Chester, PA, we paid \$3.5 million for the initial phase, that is for one ship. That includes some facilitization, as I mentioned, the cost of labor, and we have yet to get a full accounting of the sales, and thus the net costs.

Mr. SUNUNU. So that is \$3.5 million gross. Then anything they get through the sale of scrap will be credited against that. Do you split it 50/50?

Vice Admiral AMERAULT. No, sir, it always comes to us because again the insurance for them is that their costs will be borne. We are taking the risk, and that is what we are paying for.

Mr. SUNUNU. These are aluminum hull?

Vice Admiral AMERAULT. These are steel hull with aluminum superstructure.

Mr. SUNUNU. So the scrap value is a little higher?

Vice Admiral AMERAULT. I can't say with authority. Aluminum is one of the more saleable commodities, however. And I think warships tend to have more copper. There are other things that are good about those in a sense; however you determine goodness, I guess.

Baltimore Marine Industries, the cost is \$4 million. The variance in this is mostly facilitization, what they were prepared and able to do to start with.

Again when we come out of this, we will have four facilitized contractors.

International Shipbreaking in Brownsville, Texas, \$2.7 million. They are fully facilitized. This is a contractor that once defaulted on I think MARAD as well as us. And the reason that they are working out now is again, we have removed the risk. The reason that they defaulted was they bought the ship from us expecting to make money and didn't. So that puts them back in the business in a sense.

Ship Dismantling and Recycling, which is a consortium working in San Francisco, that is \$3.9 million. So the ones that have to be facilitized are roughly about the same amount.

Mr. SUNUNU. Which were the two that were let with 2000?

Vice Admiral AMERAULT. We added a ship to Metro Machine and we added a ship to Ship Dismantling and Recycling.

Mr. SUNUNU. What were the incremental costs for adding each of those?

Vice Admiral AMERAULT. \$2.7 million and \$3.2 million. Again, that doesn't have the cost reduction that will come.

Mr. SUNUNU. The 2.7 was let to whom?

Vice Admiral AMERAULT. Metro Machine, and the other was 3.2. That is to Ship Dismantling and Recycling, which is a joint venture—

Mr. SUNUNU. That is six ships that have been placed?

Vice Admiral AMERAULT. Four contractors. Two of them have two ships.

Mr. SUNUNU. In the case of Metro Machine, the difference between the 2.7 and the 3.5 represents the start-up costs and the facilitization costs?

Vice Admiral AMERAULT. It will be that, yes, sir. And what we will find out is again how much this will all be reduced because none of these figures have the reduction for the sale of scrap.

Mr. SUNUNU. Did Metro Machine complete the scrapping of the first vessel?

Vice Admiral AMERAULT. They are almost done.

Mr. SUNUNU. But you don't have the cost figures?

Vice Admiral AMERAULT. Not yet, but that is part of the deliverable on the contract.

Mr. SUNUNU. To what detail will those cost figures be provided?

Vice Admiral AMERAULT. I think to great detail. It will almost have to be a CPA like accounting because it is contractual. I don't think that we will get it until some of these sales—

Mr. SUNUNU. There is a joke in here about whether or not DOD's books meet FASB standards, but—

Vice Admiral AMERAULT. Yes, I have been involved in that previously.

Mr. SUNUNU. Will all of that cost information be shared with MARAD?

Vice Admiral AMERAULT. It is open. Since I have been in this job, I have tried to engage MARAD in this problem. So I feel like a partner. I don't particularly want to have the Navy bear the cost of the problem they have.

Mr. SUNUNU. There are obviously economies of scale in the numbers that we are dealing with here. To the extent that there is co-operation or a long-term solution to the problem with MARAD, it is going to help both groups.

Are there any issues or concerns that you have, Mr. Graykowski, with regard to information sharing, either administrative problems or legislative problems, that somehow inhibit you from getting information that you think might be helpful?

Mr. GRAYKOWSKI. No. You are too modest. I told the admiral that. When he took over, he was the first person who really took ahold of this, not only on behalf of the Navy, but reached out to MARAD.

I don't see any impediments. We all have the same problem here, and I think we all want a solution.

Mr. SUNUNU. Admiral, do you have even a rough estimate for the scrap credit?

Vice Admiral AMERAULT. Let me just say that it is encouraging.

Mr. SUNUNU. Give me a range.

Vice Admiral AMERAULT. Any figures I had seen were rough and I don't want to pin them down to anything.

Mr. SUNUNU. Give me a wild range?

Vice Admiral AMERAULT. Well, it could be that say—say a million dollars a ship. \$800,000 to a million dollars.

Mr. SUNUNU. If I were you testifying to me, I probably would have said something like well, between \$200,000 to a million five.

Vice Admiral AMERAULT. That is my answer.

Mr. SUNUNU. If we have the opportunity, we will correct the record.

Vice Admiral AMERAULT. The reason is that I would be hesitant to create a program based on that figure would not be in either ours or your best interests.

Mr. SUNUNU. I understand. If we look at the gross numbers, it is 1,300 a ton to scrap the ships and that is an enormous figure at 10 times the scrap value. There seems to be a disconnect, so I would expect the credits to be significant in just trying to gauge where we might be at the end of this process.

Vice Admiral AMERAULT. I think the other thing is that this is a one-time venture, too. I think again their costs will come down and that probably affects it almost more than the price of the market.

Mr. SUNUNU. How much of their costs are driven by EPA mandated directives and environmental concerns?

Vice Admiral AMERAULT. I would say that is the second most significant thing. Labor is the most, and then the environmental concerns.

Mr. SUNUNU. Thank you.

The Navy received \$284 million in fiscal year 2000 for environmental restoration. What is that funding directed for and why would the Navy need a new program for disposal of vessels if it could utilize that funding for this program?

Vice Admiral AMERAULT. Sir, the environmental remediation Navy is the appropriation or the line item, and it is for remediation. So I would say in our case, our ships that are scrappable, if you will, are not yet needing remediation. So I would have to find out whether those funds—we have appropriation lawyers, would tell us whether we can spend those funds on this.

Also in terms of the MARAD fleet, it is not just a Navy fleet. I am not so sure we would be spending our ERN funds on their fleet.

If we—and I think part of the answer might be in what Mr. Graykowski mentioned in terms of this has not yet—or these ships have not yet been declared as environmental hazards. So environmental restoration Navy is for declared environmental hazards.

Mr. SUNUNU. Who makes that declaration?

Vice Admiral AMERAULT. I am not sure.

Mr. GRAYKOWSKI. We have to find out what the scope of the ERN program is. I am guessing that it is SECNAV, but I don't know.

Mr. SUNUNU. If you would provide any clarification for the record, I would appreciate it.

Vice Admiral AMERAULT. We have not had difficulty in paying for the scrapping of ships that need to be scrapped. We are not running into an environmental problem with the ships that are in our Navy controlled inactive fleet.

Mr. SUNUNU. Would the Navy consider holding onto those vessels that are scheduled to be transferred to MARAD in order to dispose of them through the pilot project?

Vice Admiral AMERAULT. We are enjoined by statute to transfer them.

Mr. SUNUNU. Mr. Graykowski, putting aside political constraints and financial constraints, what do you think would be an ideal path forward for your agency?

Mr. GRAYKOWSKI. Give me a moment to sort of bask in this new found freedom that you have sort of given me.

Mr. SUNUNU. Believe me, it is very temporary.

Mr. GRAYKOWSKI. You don't know how temporary. I have to go back to my office.

The answer is obvious. You have picked up on it and you know it. Your colleagues have as well. We need, A, to have the statutory constraints lifted. We have to recognize reality and pay people.

B, I think we can set up a real partnership with the shipbuilding industry and create a ship breaking industry which focuses on breaking them in an efficient and economically and environmentally responsible way, and that is going to take money. I think we should start with, as the Navy has done with a pilot program, although I would suggest perhaps a bit more ambitious, and guarantee to a yard we will give you 12 ships. I have 40 to work with and so we could give them to 2 or 3 different yards. We can say here is the results, it is going to work or not.

I suggest that we hold off on exporting until we have a chance to get a program up and running, and I think we could do that in fairly short order if we have got the money and if the statute changes.

Mr. SUNUNU. What other alternatives are there for dealing with this that we haven't discussed? I will also editorialize by emphasizing that it seems to me that there is a problem where we probably want to take multiple approaches, where there is no single solution that is going to be ideal or best for every single vessel that we are talking about. There is the—I think the need to deal with the 40 vessels that are in the most serious condition and I think with the memorandum of understanding in place, foreign breaking yards ought to be an alternative. I think there is the very promising prospects of the Navy's pilot program and I think we need to continue to have discussions about the statutory requirement that hinders

you, whether or not that means that we authorize a 12-ship or 40-ship pilot or we simply get rid of the requirement and allow you to use your annual maintenance budget more creatively.

But outside of those alternatives that we have discussed, are there any other opportunities that you see as strong alternatives for disposing of these ships?

Mr. GRAYKOWSKI. I am really racking my brain here. Because of the criticality of the problem, we have to focus. We cannot chase different options. To me we are going to export it or do it here. If we need to do it here we need to come up with a decision tree and come up with money. Limited capability and you have to ship everything out of the ship. Other than that, I mean knowing the ships as I do, I don't see anything other than getting them out of the water and cut up and disposed of as soon as possible. That is scrapping, either domestic or foreign.

Mr. SUNUNU. Thank you very much. Thank you, gentlemen. We are adjourned.

[Whereupon, at 11:46 a.m., the Task Force was adjourned.]